

A STUDY OF INDIAN ECONOMICS



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TORONTO

A STUDY OF INDIAN ECONOMICS

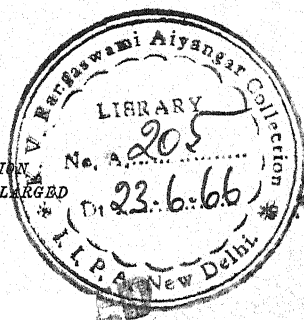
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पितृदेवेर श्रीचरणे

PREFACE TO THE FIRST EDITION

THIS book is intended to be an introductory manual for those who wish to make a serious study of Indian Economics. It has been written from the standpoint of the scientific inquirer, and is, the author believes, free from political bias. An attempt has been made throughout the book to present the different sides to every question in the fairest possible manner. The author has purposely refrained from discussing some important practical problems which he intends to deal with in a second volume.

The author has tried to avail himself of the best available sources of information in respect of the various subjects dealt with in the book. He takes this opportunity to express his gratitude to the authors, editors, or publishers of all publications from which he has gathered any information. He is especially grateful to Mr. J. M. Keynes, M.A. of Cambridge, for many valuable suggestions relating to Indian Currency.

The book is being published in a hurry, and some typographical errors will perhaps be found in it, for which the author craves the indulgence of the reader.

LONDON, *June*, 1911.

PREFACE TO THE SECOND EDITION.

IN this edition the book has been thoroughly revised and considerably enlarged. A number of appendices has also been added.

LONDON, *May*, 1915.

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CHAPTER I

INTRODUCTORY

THE subject of Indian Economics presents many difficulties to the student which it may be useful to note at the outset.

Obstacles
to the study
of the
subject:

The first and the most serious difficulty is to be found in regard to the applicability of the principles of General Economics to Indian conditions. There was a time when such principles were believed to be of universal application, and the truths which Economics inculcates were regarded as absolute truths, like those of the physical sciences. Some economists, however, early realised the limitations of the science. Mr. Bagehot went so far as to declare that the doctrines of English Political Economy had little validity outside England. He very properly called the English system of Economics "the science of business, such as business is in large productive and trading communities."¹

Applica-
bility of
economic
principles.

Economics, as it is taught in the west, is based on a number of assumptions, conscious or unconscious. When we examine these assumptions, we find that many of them are valid in India only to a very

¹ Bagehot, *Postulates of English Political Economy*, p. 7.

limited extent.¹ This being so, it would be wrong to import wholesale into India the economic conceptions of the west, and to apply them without modification or limitation to Indian conditions. But although the conclusions of General Economics may not, in all cases, be quite valid in India, the economic tendencies are none the less true. Human nature being the same everywhere in all essential

¹Mr. M. G. Ranade, in his *Essays in Indian Economics*, summed up the position of India in regard to the ordinary economic assumptions in the following words: "With us an average individual man is, to a large extent, the very antipodes of the economical man. The Family and the Caste are more powerful than the individual in determining his position in life. Self-interest in the shape of desire of wealth is not absent, but it is not the only nor principal motor. The pursuit of wealth is not the only ideal aimed at. There is neither the desire nor the aptitude for free and unlimited Competition except within certain pre-determined grooves or groups. Custom and State regulation are far more powerful than Competition, and Status more decisive than Contract. Neither Capital nor Labour is mobile, and enterprising and intelligent enough to shift from place to place. Wages and profits are fixed, and not elastic and responsive to change of circumstances. Population follows its own law, being cut down by disease and famine, while production is almost stationary, the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons. In a society so constituted, the tendencies assumed as axiomatic, are not only inoperative, but are actually deflected from their proper direction. You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or of the sun to get cold, as reasons for our practical conduct within a reasonable distance of time." Mr. Ranade wrote nearly a quarter of a century ago, and since then the situation has undergone considerable change; but his description of the state of things remains true to some extent even at the present moment.

particulars, the same sets of causes always tend to produce, under given circumstances, similar sets of effects. And as Indian conditions are tending to approach nearer and nearer the conditions of the west, the western economic theories are becoming more and more applicable to Indian affairs. Besides, economic facts of the modern world are so closely interrelated, that it is not possible to study the problems of one country in complete isolation from those of others. It will not do, therefore, to brush aside the theories of General Economics as absolutely useless for our purposes. What is needed is to apply those theories to Indian conditions with such modifications and limitations as the differences in the circumstances may suggest. The economic phenomena of India must be studied separately, but they must also be considered in their relation to, and dependence upon, economic phenomena outside the country.

The second difficulty arises from the fact that India is at the present moment in a state of economic transition. The older habits and customs are being modified by the impact of western ideas and ideals. New circumstances are bringing about changes in the social and economic life of the people. In fact, the conflict between the past and the present is now the dominating condition. The influence of the west is not, however, uniform throughout the country, so that we find industrial India standing side by side with agricultural India. Economic phenomena are complex everywhere, but this fact of transition introduces an additional

Complexity
of Indian
economic
phenomena.

complexity into the economic problems which present themselves for solution in India.

Want of
reliable
data.

Another obstacle with which the student is often faced is the absence of reliable data. There being no independent agencies for the collection and investigation of economic facts, the Blue-books and Papers published by the various departments of the Government form his only source of information. But he cannot always depend upon such information, for the agency by which the statistics are collected is hardly trustworthy, and the method employed in their presentation is often unsatisfactory. Much care has, therefore, to be taken in the understanding and use of these statistics; and unless this is done the student runs the risk of being led away into wrong generalisations and conclusions.

Personal
sentiment.

Personal sentiment is another great obstacle to the proper study of the subject. To make the study fruitful, absolute regard for truth is essential in the investigation of economic phenomena, and personal likes and dislikes must be wholly set aside. Unfortunately, the position in India is such that those who take part in economic discussions are often led by passion and prejudice to identify themselves with this or that party, and thus find it difficult to recognise and appreciate the whole truth.

These are some of the reasons which account for the neglect of the study of economics in India. The result is that although many capable men have dealt with the details of Indian economic facts,

very few have attempted to grasp the principles or to explain the facts by the aid of theories. It is a matter for great regret that the study of such an important subject has scarcely been pursued in a scientific spirit. The late Mr. Justice M. G. Ranade brought his keen intellect, wide knowledge, and deep insight to bear on the study of the subject, and a portion of the results of his study was given to the public in the shape of his speeches and essays. But they were merely an earnest of what the people expected from him. Unfortunately, his premature death deprived the country of the services of one of her best and ablest sons.

In the following pages an attempt will be made to deal with the subject in a systematic manner. The prevailing method and arrangement will be followed, with such modifications as the differences in the social and economic organisation suggest, and the theories of General Economics will be examined in the light of Indian facts. No one, I am sure, will expect an exhaustive and satisfactory treatment of the various questions of Indian Economics within the limits of a small volume like this. My object is merely to acquaint the reader with the general economic phenomena of India so as to help him in pursuing a fuller and more detailed study of the different branches of this important subject.

CHAPTER II

THE NATURAL ENVIRONMENT

MAN is ultimately dependent on nature in every aspect of his life. His economic life, in particular, is closely related to the facts of nature. The physical environment is, in reality, the basis of all economic activity. In the case of India, therefore, as in that of any other country, a study of economic phenomena should start with an investigation of the physical factor. This subject may be considered, for our purpose, under the five heads of the geographical situation, the geological structure, the climate, the flora and fauna, and the facilities of communication.

1. GEOGRAPHICAL SITUATION

Extent. India extends north and south from latitude 8° to latitude 38° , and the extreme points on the west and the east are situated respectively at longitude 66° and longitude 100° . It comprises an area of 1,802,657 square miles. The provinces under British administration comprise 1,093,074 square miles, or 60.6 per cent. of the total. The remainder is included in the Native States. The Indian

Empire is equal to the whole of Europe, except Russia.¹

The range of the Himalayas, with its snow-clad peaks penetrating far into the sky, forms the northern boundary of this vast country. On the north-west and the north-east also, it is bounded by lofty mountains which prevent ingress or egress except through a few narrow passes and defiles. On every other side the boundary is the sea. Boundaries.

Thus situated, India forms a unit by itself, separated as it is by nature from the rest of the world. And within its own borders the country presents so many marked differences in physical features that it is often described as a continent rather than a country. Natural divisions :

The Himalayas, rising from the plains of India in a series of almost parallel ranges to the loftiest heights, and spreading over a length of more than 1250 feet, are the most striking feature in the geography of India. Acting as a climatic barrier, and being the perennial source of the great rivers which moisten the parched lands of Northern India and endow the soil with inexhaustible fertility, they have always exercised the greatest influence not only on the physical condition of the country, but also on the moral and economic life of the people. Northern India,

¹ Burma is about the same size as Austria-Hungary; Bombay is comparable in point of area with Spain; Madras, the Punjab, Baluchistan, the Central Provinces and Berar, and Rajputana, are each larger than the British Islands; the United Provinces and Behar and Orissa than Italy; and Hyderabad and Kashmir than Great Britain, excluding Yorkshire (vide *Census of India*, 1911).

Peninsular
India.

Below this great range lies the sub-montane region with its dense forests and an inhospitable climate. Next comes the great plain of Northern India, from about 150 to 300 miles in width, and watered by three great systems of Himalayan rivers,—the Indus, the Ganges, and the Brahmaputra. Broadly speaking, the western half of this plain may be described as dry and sandy, and the eastern half moist and water-logged, these features reaching their extreme points in Sind and the Great Desert on the west, and in Assam and East Bengal on the east.¹ To the southward lies the peninsula, consisting of a rugged plateau separated from the north by the Vindhya range, and flanked on the west by the steep hills of the Western Ghats and on the east by the Eastern Ghats which gently slope into the Bay of Bengal. This plateau is of an average height of 1500 feet, and is cut into a few deep valleys through which seven great rivers carry their waters to the Arabian Sea and the Bay of Bengal.

2. GEOLOGICAL STRUCTURE

Geology of
India

in ancient ages,

India, in the ancient geological ages, was very different from what we find her now. Geologists say that in the earliest period she was represented

¹It is curious to note how physical conditions change along with other circumstances. At the time of Alexander's invasion a good part of the now arid desert consisted of populous towns and prosperous villages. So also, the jungle now known as the Sunderbun, and inhabited by tigers and other wild beasts, was, a few centuries ago, the seat of a flourishing kingdom.

by the southern peninsula and was connected with Africa by land; while over the area where now exist the regions of the Punjab and Rajputana, the tides of a wide and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features. Finally, as the result of a slow process of geological evolution extending over thousands of years, she acquired her present shape and physical characteristics. These successive formations have left their marks on the physiography of India, and they may be grouped under six heads: (a) Achaean, (b) Vindhyan, (c) Gondwana, (d) Basaltic, (e) Tertiary and Cretaceous, and (f) Alluvial. As, however, a detailed examination of these formations is not necessary for our purpose, we shall content ourselves with a general description of the various kinds of soils and minerals which owe their existence to them.

in the modern
age.

The most extensive, and agriculturally the most important, tracts are the alluvial. They comprise the greater portions of Sind, Gujrat, Rajputana, the Punjab, the United Provinces, Bengal, extensive tracts in Assam and Burma, the Godavari, the Krishna and Tanjore districts of Madras, and strips extending along the eastern and western coasts of the peninsula. Alluvial soils also fringe the courses of the rivers in many other places.¹

Soils:
Alluvial.

Alluvial soils differ in different parts of the country in respect of their physical as well as their

¹ Vide *Imperial Gazetteer of India*, vol. iii. p. 8.

chemical properties. Generally speaking, in north-western India the soils are porous, dry, and, in some places, sandy. In Bengal, the soils are more compact, less coarse, and moist. The soils in the deltas of Peninsular India are non-porous, clayey, and of dark colour. The chief advantages of porous and light soils are that they are easily worked by the plough and easily permeated by water. They lead to great fertility of the land in places where the atmosphere is moist. But their great defect is that they allow the water to sink into the lower strata, and are unsuitable for the growth of those kinds of plants which require the retention of a great deal of moisture about their roots; and thus they cause infertility of the land in those parts in which showers are not frequent. The alluvial soils are, on the whole, rich in chemical properties. Phosphoric acid, potash, lime, and magnesia are found in sufficient amounts; but nitrates are often in defect. In some places, however, barrenness results from an excessive accumulation of magnesia and soda salts on the surface. A large variety of *rabi* and *kharif* crops is grown on alluvial soils.

Trap soils.

Next in importance are the trap soils which cover the whole of the Deccan and considerable parts of the Central Provinces, Hyderabad, and Kathiawar. On the uplands and the slopes of hills, the soils are porous and light, and are generally poor. The chief crops of these areas are millets and pulses. In the lowlands the soils are thicker and darker-coloured and more fertile. They are

suitcd to the growth of cotton, wheat, millets, and pulses.

In portions of the Deccan trap area is found *regar*, or the black cotton soil,—so called from its dark colour and its suitability for the growth of cotton,—which possesses an almost inexhaustible fertility. This soil is the product of the decomposition of lavas. It is of a dark colour and is exceedingly compact and tenacious. It is highly retentive of moisture and rich in chemical properties. The kind of crops most suited to these areas is the *rabi*, but the *kharij* crops are also grown in many cases. Cotton, wheat, linseed, and millets are the chief crops. Soils akin to the black cotton soil of the Deccan are found in the river-valleys of a few other districts in Bombay, and also in parts of Madras.

Black cotton
soils.

So much about the special varieties of soils. The rest of India may be described as the “crystalline soils tract.” But these soils differ so much from one another in the different provinces in regard to their physical and chemical characteristics that it is hardly fair to put them all in one class. They are usually sterile when they occur on the uplands, but the clayey and brownish loams of the lowlands are fertile. The better kinds of such soils are suited to a great variety of crops, the most important being rice. The reddish-coloured laterite soils of certain districts in Bombay are rather infertile, being highly porous and dry. The crystalline soils generally are deficient in the nitrates and phosphoric acid.

Crystalline
soils.

In the midst of these varying features one characteristic is found to be common to almost all soils, viz., their comparative dryness. This absence of moisture in the land makes the supply of water an absolute necessity in Indian agriculture.¹

Such is the surface of the earth as we find it in India. It is needless to say that it is of the greatest importance in the economic life of her people, whose material and moral welfare is indissolubly bound up with the soil. But of equal importance is what lies beneath the surface. The wealth of a nation in modern times corresponds, in a large measure, to its output of economic minerals.

Mineral
resources :

The mineral wealth of India has not yet been fully ascertained ; but judging from the amount of actual production, her mines and her possibilities as shown by investigations, we may say that India is rich in mineral resources. Mr. V. Ball, in his introduction to the *Economic Geology of India*, quotes the statement of Megasthenes that "India has underground numerous veins of all sorts of metals," and regards it as absolutely true. He goes on to say, "Were India wholly isolated from the rest of the world, or were her mineral productions protected from competition, there cannot be the least doubt that she would be able, from within her own boundaries, to supply very nearly all the requirements, in so far as the mineral world

¹ In this respect, Indian conditions differ widely from those of England, where, on account of the presence of an excessive amount of moisture in the land, drainage is the most essential thing in cultivation.

is concerned, of a highly civilised community.”¹

•The mineral resources are widely distributed over almost the whole of her area, and it will perhaps be useful if we briefly describe the chief kinds.

Coal is the most important of the mineral products of India. Its quantity is large and the quality is good. It is found chiefly in Bengal, Behar, Assam, and the Central Provinces, and in smaller quantities in Burma, Central India, the Punjab, Kashmir, and Baluchistan. Iron² ores of a superior quality are to be found in abundance in various parts of India. The chief iron areas are Barakar, Chaibassa, and Itori in Bengal; the northern and eastern districts of the Central Provinces; the eastern half of Central India; Mahabaleswar and Malwa in Bombay; and Mysore. It is also found in small quantities in the Punjab and the United Provinces, Kashmir and Rajputana. At present, however, it is nowhere worked to any considerable extent except near Barakar in Bengal; but it is hoped that there will be a great expansion of the production and manufacture of iron in the near future.

•Petroleum oil is found chiefly in Assam, Burma, and Baluchistan, and an inferior quality in certain districts of the N.W. Frontier Province. The

¹ V. Ball, *Economic Geology*, p. xv.

² The importance of iron and coal in the economy of a country is immense. The dominant industrial position of England is due, in a large measure, to her possession of an abundance of these minerals. Coal is important not only as ordinary fuel, but as the indispensable requisite in all productive industries.

Rock-salt.

Tin.

Materials for
industries.

petroleum resources of India are confined to the two systems of folded rocks on the eastern and western Himalayas. Rock-salt is obtained in large quantities in the famous Salt Range and in the Kohat district of the Punjab. Tin is found only in lower Burma and in the Hazaribagh district of Bengal; but the total quantity of output is not large.

Of the materials used for agriculture and the chemical industries, saltpetre is the most important. The natural conditions for the production of saltpetre in Behar, which is the chief source of the compound in India, are ideal, but the production is now diminishing. India is very deficient in her supply of phosphates. The only deposit worth noticing is in the Trichinopoly district of Madras. The export of phosphates in the form of bones is a circumstance to be greatly deplored. Potash salts are very rare. Gypsum, alum, and sulphur are obtainable in several parts of the country. Borax is obtained from Kashmir and Tibet. Soda salts are obtained from the soil in various parts of the country.

Gold.

India was, in ancient times, famous for her precious metals. At present her production of these is not large, though it is still considerable. The most important of these is gold, which is found in large quantities in the Kolar field in Mysore. Some amount is also found in the mines of Hyderabad and several other places. Of recent years, gold has been found in two parts of the Dhalbhum district in Chota Nagpur. Besides, in all the Provinces of India small quantities of gold are

obtained from river gravels by the indigenous process of washing.

Both copper and lead are widely distributed over the whole of India. Copper is found chiefly in Bengal, and also in several places in the Central Provinces, Rajputana, Southern India, and at various places along the Himalayas. Lead occurs in Bengal, Central Provinces, Rajputana, the Karnul district in Madras, and certain districts in Bombay. In some places, silver and zinc have been found associated with lead.

Copper.

Lead.

Silver and zinc.

Of recent years, aluminium has been discovered to occur in abundance in Burma and the whole of Peninsular India, and it is believed that this industry has a great future before it.

Aluminium.

Manganese occurs in such abundance in the Central Provinces that India now takes the second place among the manganese-producing countries of the world. It is also found in certain parts of Bombay, Madras, Hyderabad, Burma, and Chota Nagpur.

Manganese.

Mica is one of the most important mineral products. India turns out more than half of the total mica supply of the world. The main source of production is in the Hazaribagh and Gaya districts of Bengal. It also occurs in the Nellore district of Madras.

Mica.

Cobalt is found in Rajputana, and nickel is obtained from the gold-fields of Kolar.

Cobalt.
Nickel.

Various kinds of precious stones are to be found in different parts of India,¹ important among them

Precious stones.

¹ Kautilya in his *Arthashastra* and the author of the *Periplus* mention a large variety of gems and pearls.

Diamond.
Ruby.
Sapphire.

being diamond, ruby, and sapphire. Diamonds occur chiefly in Madras, the Central Provinces, and near Panna in Central India. Ruby-mining is a very profitable and flourishing industry in Upper Burma. The chief seat of sapphire is Kashmir, but the mines are said to be exhausted.

Miscellaneous
minerals.

Besides these, there are various kinds of miscellaneous minerals. Common stone and marble also are important, they being the chief material used for building and ornamental purposes.

Mineral
springs.

Numerous hot and mineral springs are found in different parts of India, but their neglect is a curious feature in the situation. As instances may be mentioned the hot springs at Manikarn in Kulu, the sulphur springs at Lasundra in the Kaira district and at Vajrabai in the Thana district of the Bombay Presidency, and other springs along the foot-hills of the Himalayas.

3. CLIMATE

Sharp
contrasts
in climate.

The climate of any place is determined by various factors, the chief among these being its latitude, altitude, proximity to the sea, and position in regard to the prevailing winds. India is such a vast country that its parts differ widely from one another in respect of each of these factors, giving us sharp contrasts in climatic conditions.

Excluding the Himalayas, which act as a climatic barrier in shutting out the cold winds of Central Asia and keeping within the borders of India the vapour-bearing winds of the south-west monsoon,

the country may be divided, for meteorological purposes, into two parts: Peninsular India and Northern India.

The whole of the Peninsula falls within the Tropics and has a hot climate, the variations of temperature between summer and winter being small. The coasts have an even smaller range of temperature, and the atmosphere there is usually cloudy. These features are specially observable on the windward coasts, and they diminish with increasing distance from the sea.

The Peninsula,—
variations slight.

Almost the whole of Northern India lies beyond the Tropic of Cancer, but here the climatic conditions are more complex. In technical language, the climate may be described as continental. The severity of heat or cold and the amount of moisture present in the air, however, differ greatly in the different provinces and during different seasons. In the Punjab and the North-western Frontier Province we find bitter cold in winter and extreme heat in summer. As we travel eastward the severity both of heat and of cold steadily diminishes. In Bengal and Assam, the winter is mild and the summer is moderately hot. Again, Sind, the Punjab, and Rajputana are exceedingly dry, while the atmosphere of Assam and of East Bengal is always saturated with moisture.

Northern India,—

severe heat and extreme cold.

Altitude tempers the heat of low latitudes. Up on the hills, it is delightfully cool and refreshing even in midsummer, but beyond a certain point the excess of cold forbids human habitation.

These are the general features of the climate of India, which are, however, to a large extent

disturbed by the periodical or monsoon winds, of which we shall speak presently.

The seasons:

Winter,

dry summer
and rainy
summer.

The Indian year is divided into six seasons; but, for economic purposes, it may be divided into two—Winter and Summer,—the latter being subdivided into dry summer (April, May, and June) and wet summer (July, August, and September). The seasons are of the greatest importance in the economy of Indian life, as they are accompanied by an alternation of the meteorological conditions which produces the most momentous results. In winter, dry land winds prevail over the greater part of India, while in summer we have winds of oceanic origin, with high humidity, much cloud, and frequent rain. This alternation is due to a difference in temperature and atmospheric pressure in different regions.

The
monsoons.

The whole of India lies within the belt of the northern trade-winds. Under normal conditions, therefore, we should expect the wind to blow from the north-east throughout the year. As a matter of fact, however, the north-east wind blows during only one-half of the year. During the other half, the wind movement is modified because of the presence of the continent of Asia near the equator. This disturbance of the air-current is due to the fact that land and water differ greatly in their behaviour regarding the absorption and radiation of heat. In April and May, the plains of Northern India become very much hotter than the water of the Indian Ocean near the Equator; and, consequently, the pressure becomes much lower in the former region than over the Equator. The heated air rises and the

cooler air from near the Equator rushes in to take its place. Thus an air-current is established in the lower strata of the atmosphere from the south towards the north. Just at this time, south of the Equator, the wind blows as a south-east trade-wind. As this wind reaches the Equator, it finds the barometric pressure higher there than in Northern India. It then swirls round and blows as a south-west wind, accelerating the air-movement which has already begun from the Equator towards India. This is the south-west monsoon. Being of oceanic origin, the wind is laden with moisture; and as the clouds are driven inland by storms, they drench the parched lands of India with rain. The south-west monsoon usually establishes itself in Bombay and Bengal early in June, and before the end of the month it extends over practically the whole of Northern India.

South-west
monsoon.

The south-west monsoon reaches India in two currents,—the Arabian Sea current and the Bay of Bengal current. The former gives rain to Bombay, the Punjab, and a part of the Central Provinces, and the latter to the rest of India and to Burma. India gets nearly 90 per cent. of her annual rainfall from the south-west monsoon. This monsoon usually continues till September.

Two
currents :
Arabian Sea
current,
Bay of
Bengal
current.

In October and November, the temperature over the land in India becomes lower than that over the sea near the Equator; consequently, the barometric pressure is higher, and winds now begin to blow towards the Equator. This is often alluded to as the north-east monsoon, but it is, in reality, the

North-east
monsoon.

normal north-east trade-wind. Being of land origin it does not contain much moisture, and is, therefore, called the dry monsoon, in contradistinction to the south-west monsoon, which is wet. The little moisture which it contains is really the residue left by the south-west monsoon, which has been prevented by the Himalayas from passing out of India. But the north-east trade-wind picks up a considerable amount of moisture during its passage over the Bay of Bengal, and gives rain to the south-eastern districts of Madras. This north-east wind is thus of great economic importance to Madras, although the total quantity of rain which India gets from it is small. Some amount of rain also falls in the Punjab during the winter months, which is probably due to local storms.¹

Amount of rain
determined
by—

The amount of rain that falls in India varies from year to year. It depends on the force and direction of the air-current. The quantity which any particular part of the country receives depends on the configuration of the surface of the land, on its situation with reference to the winds, and on any other factor which causes reduction in the temperature of the air. For instance, while a large amount of rain falls on the west coast of the peninsula, the table-land of the Deccan and Southern India gets very little rain from the south-west monsoon, the Western Ghats acting as a barrier to the passage of the vapour-bearing winds. Where, on the other

Situation,

¹ The Northern Punjab is outside the belt of regular winds, and, consequently, we should expect more local storms here than in other parts of India.

hand, no such obstacle is offered to the passage of the monsoon current, the clouds travel far into the interior of the country. The east coast of Madras does not receive much rain from the south-west monsoon, for it does not lie in the path of the winds, their direction being north-easterly. Again, any cause which cools the air-current leads to a condensation of water-vapour and to the fall of rain. Rainfall is abundant on the mountains and in forest tracts, while it is scarce in deserts where the atmosphere, being hot, is capable of holding in suspension a large amount of water-vapour. Thus, the normal rainfall in the Cherapunji hills is 160° , while it is as low as 7° in Sind and south-west Punjab.¹

Height, 2

Moisture
of air. 3

The success or failure of the crops is determined by the quantity, distribution, and time of occurrence of the monsoon rains. In European countries, the variations in rainfall may increase or diminish the abundance of a crop, but in India they produce far greater consequences. In one year rainfall may be so abundant that harvests are plentiful, in another an almost total failure of the rains may lead to a severe famine involving the loss of thousands of lives. But it is not agriculture alone that is affected by the monsoons; trade and commerce are largely dependent upon them, while the framing of the Annual Budget of the Government of India has been described by a recent Finance Minister as a "gamble in rain." In fact, the prosperity of the country depends almost entirely on the monsoons;

Importance
of rainfall.

¹ A tabular statement of the normal rainfall in different parts of India will be found in Appendix D.

and natural water-supply is the chief factor determining the density of population and the state of civilisation in any particular part of India.

Influence of
climate on
physique
and
character.

The climate of the country affects not only the productivity of the land, but also the physique and character of the people. A hot and moist climate tends to cause much fatigue after moderate exertion and a general ill-defined condition of debility. It thus produces a disinclination to hard work. Various kinds of tropical diseases also render the body weak and reduce the longevity of life. The cumulative effect of all this on the people is to produce a lack of the energy and strength needed to develop the best in themselves and in the resources of the country.

4. FLORA AND FAUNA

Vegetable
life.

The geographical position of the country and its climatic and geological conditions have an important bearing on the vegetable and animal life of India. The large extent of its area and a great variety in physical features and climate, combined with the natural fertility of the soil, enable the country to produce almost every kind of vegetable life. In fact, the flora of India is more varied than that of any other area of the same extent in Asia, if not in the world. Here we find not only the tropical and sub-tropical products, but the products of the temperate zone as well. The most important among the tropical products obtained here are : rice, coffee, millet, sugar-cane, cinchona, jute, spices, india-

Tropical,
sub-tropical,
and temper-
ate-zone
products.

rubber and gutta-percha; pineapple, bananas, and other kinds of tropical fruits. The chief sub-tropical products grown are: cotton, tobacco, opium, and tea. Of the products of the temperate zone, the following may be mentioned as the more important: wheat, maize, barley, pulses, potatoes, hemp and flax, and various kinds of fruits. Besides these, many miscellaneous articles are found, such as a large variety of oil-seeds, gums, timber, and indigo.

Animals are of great use for purposes of cultivation as well as of draught. At one time India possessed a fairly adequate supply of good and serviceable cattle. But of late there has been a great deterioration in the quality, and diminution in the quantity, of live stock. Being imperfectly fed and housed in insanitary sheds, cattle are constantly liable to diseases of various sorts; and the question of breeding does not receive the attention from the people which it should.¹ This paucity of good cattle is a great drawback in the improvement of agriculture. Cattle-rearing is difficult in those parts of the country in which rainfall is large, because the rain-water washes away the salient constituents which are essential to the health of the cattle. There the animals do not grow up to a good size and strong. For this reason, horses are rare in Lower Bengal, the

Animal life.

¹ "Cattle disease," says the Agricultural Adviser to the Government of India, "is so serious an affliction that it ranks in many parts of India as a scourge, and is a direct obstacle to the amelioration of the condition of the cultivator" (*Report on the Progress of Agriculture in India, 1911-12*, p 4).

Carnatic and Coromandel coasts, and Lower Burma. In the drier parts, on the other hand, such as Baluchistan, the Punjab, Rajputana and Kathiawar, very good horses are found. The most important of the Indian animals are bullocks, which are used almost everywhere for the plough as well as for carrying loads and drawing water. Buffaloes also are used for similar purposes in many parts. The cow and the she-buffalo are highly useful in almost every part of the country, as milk and *ghee* are among the chief articles of food consumed by the people. Sheep and goats are found in every province. The donkey is a very useful beast of burden, especially in Northern India. The camel is plentiful in the sandier parts of the country, and is a very useful animal for carriage. The region in which good cattle is reared includes the Punjab, Kashmir, Rajputana, and Kathiawar, where rainfall is not excessive.

Animal
products.

Products obtained from animals, besides milk, are wool, wax, and ivory, all of which are articles of utility and in demand.

Aquatic
products.

Of the aquatic products fish, of course, is the most useful. The pearl fisheries of the Indian Ocean are also very important from the economic standpoint.

5. FACILITIES OF COMMUNICATION

Communica-
tion easy in
Northern
India,

The flatness of the surface makes communication easy in the plains of Northern India. Roads and railways can be constructed here without much difficulty. The Ganges, with its numerous tribu-

taries and branches, furnishes some thousands of miles of waterways, which are of immense economic importance. The Brahmaputra also in its lower course affords some facilities of transport. The Indus and its tributaries are navigable by small boats, and by steamers during a part of the year. In the southern half of the country, the nature of the surface has placed great impediments in the way of communication. Roads are not easy of construction, and railways have become possible only in certain parts of the peninsula, and even there only with the aid of much engineering skill. The rivers also are not quite so useful as waterways, all of them being too impetuous in times of flood and too scantily supplied with water at other times.

but difficult
in the
peninsula.

The long sea-board of India offers facilities of communication between the coast districts of the country. The number of natural harbours, however, is few, and during the monsoons the Indian Ocean becomes exceedingly rough. But in spite of these disadvantages, the sea has now become a natural highway connecting India with the other parts of the world.

The sea,
the great
highway.

We have now finished our brief survey of the physical environment in India and its relation to the economic aspect of the life of her people. We have noted the many natural advantages which the country enjoys and the few difficulties it labours under. It is necessary to recognise the dependence of the people on nature; but it would be a mistake to suppose that this dependence is absolute. Man

Natural
advantages
many, dis-
advantages
few.

Dependence
on nature
not absolute.

Natural
obstacles
surmount-
able.

can, in some measure, modify his environment. And the people of India can, by their intelligence and knowledge, control the forces of nature to a considerable extent. Let us try to understand this point clearly.

The productiveness of the land depends on the fertility of the soil. But natural fertility is increased by the effort of man and decreased by lack of proper care. Wasteful cultivation may turn the best land into the poorest; while the worst land can be converted into the most fertile by the application of proper manures and the adoption of a well-regulated method of agriculture. In mining, the extension of knowledge and inventiveness may lead to the artificial manufacture of new and useful metals, supplementing and even superseding the use of the minerals which are now known to the world. As for the climate, it is essentially unalterable; but even here modifications may be secured in various ways. Afforestation may lead to an increase of rainfall where it is at present scanty, and irrigation may be so practised as to carry water to any place where it is wanted. Extensive drainage works, the reclamation of swamps and marshes, and the re-excavation of silted rivers may also affect for the better the climate of the country, the health of the people, and the moisture conditions of the land. The effects of extreme heat and cold may be mitigated by various artificial means. The enervating influence of the climate on body and mind may be counteracted by the adoption of proper care and a scientific mode of living.

The flora and fauna of the country are determined partly by the physical conditions and partly by the will of man. Scientific knowledge may be applied to the improvement of the existing vegetables and fruits, and new sorts may be made to grow. So also, the breed of cattle may be improved and certain new kinds may be introduced.

As for communication, science has surmounted most of the difficulties which nature placed in certain parts of the country. Railways have penetrated into places which would otherwise have remained inaccessible, and distance is no longer a bar to communication. The formidable ocean now affords the easiest and cheapest means of transport.

CHAPTER III

THE SOCIAL STRUCTURE

THE PEOPLE

NATURE and man are the two chief agents in the production of wealth. In the last chapter we described the part played by nature in the economy of Indian life. The present chapter will be devoted to a brief discussion of the human element.

Population. The total population of India is about 315·15 millions, of which British territory contains 244·26 millions or 77·5 per cent., and the Native States 70·88 millions or 22·5 per cent.¹

Density. In the whole Empire there are on the average 175 persons to the square mile, or much the same as in Europe outside Russia. In British territory the number to the square mile is 223 and in the

¹ The population of India is considerably more than three times that of the United States of America. The United Provinces and Bengal with the States attached to them have each as many inhabitants as the British Islands, Bihar and Orissa as France, Bombay as Austria, and the Punjab as Spain and Portugal combined (vide *Census of India*, 1911).

Native States 100.¹ But in India, distribution of the people is not even throughout the country. The density of population depends on several factors, the most important of which are rainfall, the climate, the soil, the configuration of the surface, and the state of civilisation. As a rule, the population is the densest in those parts in which there is an abundant supply of water, either natural or artificial, or in other words, where the primary requirements of human life are satisfied with the greatest ease. But there are exceptions. The greatest density is to be found in the province of Bengal, which has an average population of 551 to the square mile, and the next densest tract is the Gangetic plain of the United Provinces, with 427 to the square mile. The density is the lowest in Upper Burma, the North-western Frontier Province, and Baluchistan. Between these extremes there is almost every shade of variety.²

Local
distribution
unequal.

The people for the most part live in villages. Only 9.5 per cent. of the population are found in towns with over 5000 persons each, compared with 78.1 per cent. in England and Wales and 45.6 per cent. in Germany. The proportion of the urban to

Population
mainly
rural.

¹ Sir A. J. Baines pointed out (in an article in the *Journal of the Royal Statistical Society*, December, 1904), that, in the case of India, "the mean density figure is in itself peculiarly devoid of significance." The population per mile of the United Kingdom is 379; Germany, 290; France, 190; the United States, 21; Russia in Europe, 50; Russia in Asia, 3.6; Belgium, 589; Holland, 400; Egypt (Delta), 939; Canada, 1.5; Australia, 1.2.

² In Assam the density is 110 to the square mile, in Baluchistan 6, Bengal 551, Behar and Orissa 344, Bombay 145, Burma 52,

Towns comparatively few.

the total population ranges from 18 per cent. in Bombay to only 3 per cent. in Assam.¹ There are only 30 towns with a population of over 100,000. The number of towns each containing populations varying from 5000 to 990,000 is 2224. But the number of villages is no less than 730,000. The reason for this is to be found in the fact that the people are in the main agricultural. The rural people are generally less progressive in their thoughts, ideas, and habits than the town people, but there is no antagonism between life in towns and that in villages. There was a time when the urban population was much larger, and the social importance of the towns greater. With the decay of the industries, the towns sank in importance, and there was a tendency for a larger and larger proportion of the people to become rural.² Of recent years, however, there has become discernible a tendency working in the opposite direction; and towns are once again beginning to take their proper place as centres

Central Provinces and Berar 33, Madras 291, North-West Frontier Province 64, Punjab 177, and the United Provinces 427.

¹ The percentages of the urban population to the total are as follows: Assam, 3; Bengal, 6; Bombay, 18; Burma, 9.3; the Central Provinces and Berar, 8; Madras, 11.7; North-West Frontier Province, 13 (excluding the Agencies and Tribal areas, where the population is wholly rural); the Punjab, 10.6; the United Provinces, 10.2; Baroda, 20; Cochin, 12; Hyderabad, 9; Rajputana, 13; Kashmir, 9; Travancore, 6.2; Mysore, 11.

² It is now many years since the late Mr. Justice M. G. Ranade mournfully complained in his *Essays and Speeches* of this progressive ruralisation of the people.

of thought, culture, and industry in the life of the nation.

The division of the people into sexes is important from the economic standpoint, for a very large proportion of the female sex in India can hardly be regarded as producers of wealth at all. The social customs prevent females, of the higher and middle classes in particular, from participating in the production of wealth, at least in a direct way. Taking the country as a whole, there is a slight excess of males over females. Among the higher classes, however, the female portion slightly preponderates over the male.

Division into
sexes.

Another important fact about population is distribution according to age. The old and the very young are consumers of wealth, but not producers. Roughly speaking, the limit for active work may be put at the ages of 15 and 60.¹ The number of persons between these limits is about 170 millions, or 53 per cent. of the population. If we deduct from this the infirm and sick persons, as well as a large proportion of females who, owing to the *parda* system and other social customs, do not

Distribution
by age.

¹ The theory of Sundbärg, the Swedish statistician, that the age group "15-50" contains about half the total population, holds good in India, but the local variations are somewhat greater than in Europe, and the proportions are apt to be disturbed by famine. But his other theory, namely, that the numbers in the two age groups "0-15" and "50 and over" approach equality is not true in India, because, owing to the shorter lives of the people, the rate of mortality amongst persons aged 50 and over is considerably greater than that amongst those under 15 (vide *Census of India*, 1911).

contribute to the economic life of the people in a direct way, we get the total number of able-bodied persons who are fit to participate in the production of wealth, or, in other words, who form the labour-force of the country.

Health.

The most important fact to be considered when dealing with the human element in production is the health of the people. The efficiency of labour is greatly impaired by the general ill-health of the people in most parts of the country. This is due to unfavourable climatic conditions, insufficient nutrition, want of pure water, insanitary surroundings, artificial modes of living, and unhealthy social customs. All these factors render the body weak and less able to resist disease. To these must be added the epidemics which sweep over the country every now and then, sometimes causing great havoc and devastation. Finally, the influence of heredity helps to perpetuate the evil effects, so that the physical deterioration of the people goes on increasing from generation to generation.

Distribution by occupation.

The economic condition of the people depends largely on how they earn their living; hence the great importance of the question of distribution by occupation. The most noteworthy fact in this connection is that over 72 per cent. of the population are supported by agriculture. Industries maintain 11·2 per cent., and trade and transport, 5·6 and 1·6 respectively. The rest of the people depend for their livelihood on the following occupations: professions and liberal arts, 1·7; domestic service, 1·5; public administration, '84; public force, '77;

extraction of minerals, '17; insufficiently described occupations, 2'9; unproductive occupations, 1'1; persons living chiefly on their income, '17.

So much about what may be called the status of the population. But the dynamics of the population are also very important. Changes are affected by three factors: birth, death, and migration. We shall briefly notice each of them.

Dynamics of
population.

Birth depends on marriage and fecundity. In India, marriage may be said to be almost universal. Roughly speaking, we may say that religion and social customs favour the marriage almost of every person before the age of puberty is reached. Consequently, the hypothesis that marriages increase with prosperity and decrease with adversity does not hold good in India. As a matter of fact, improvident marriages are more frequent among the lower than among the higher classes. The proportion of celibates is much lower in India than in Europe and America. On the other hand, custom forbids the marriage of widows among the Hindus; and, moreover, as there is a great disparity in the ages of the husband and the wife, we find a higher proportion of widows here than in European and American countries. The proportion of widowers also is a little higher. The fecundity of marriage among the poorer classes is greater than among the middle and higher classes, and also among the Mahomedans than among the Hindus. This difference is due perhaps to the absence of prudential considerations among the less advanced sections of the community. The average crude birth-rate in

Marriage.

Birth-rate.

India during the last ten years was 43·9 per thousand of the population.¹ No reliable figures can be obtained of the refined birth-rate, that is to say, of the births compared with the number of women of child-bearing age. But it may be said in a general way that women begin to bear children at an early age and also cease very early.

Death-rate.

The increase or decrease of population depends not only upon the birth-rate but upon the death-rate. In India, the death-rate is abnormally high, as compared with the death-rate in other civilised countries. About a quarter of the children born die within the first twelve months. During the years 1901-1911 the average death-rate was 38·5 per thousand. In the modern civilised communities, the normal death-rate varies from 13 to 21 per thousand.² The high rate of mortality in India is due to several causes,—famines, epidemic diseases, want of proper food and good drinking water, insanitary conditions, and the impaired vitality caused by early marriage.³ In bad seasons the

¹ The calculations of birth- and death-rate are those of Mr. T. G. Aekland as given in the *Census Report*, 1911.

² In England, the birth-rate in 1912 was 23·8 per thousand and the death-rate 12·9.

³ The Famine Commissioners of 1898 said in their Report: "Epidemics may sweep them off by tens of thousands without attracting attention, because these agencies are incessantly at work. Famine, which intensifies their activity, is more conspicuous from its less regular occurrence, but it is really only one, and perhaps not the most deadly, of numerous influences by which at present human life is cut short, and which can be effectually counteracted by the general advance of society in wealth, knowledge, and material resources" (p. 29).

population usually decreases; while in good seasons there is an increase of population, this being due not so much to increased birth-rate as to the diminution in mortality. The mortality in towns is a little higher than in the country, probably because of the greater congestion in the former.

According to actuarial calculations, the estimated expectations for male and also for female lives, for all India are materially below those deduced from English lives at all ages. The Indian expectation at birth is 22·59 years for males, and 23·31 for females, while the English is 46·04 for males and 50·02 for females, the differences being quite marked throughout life. The estimated expectations lie below those of 1891 and 1901 at all ages, which shows that the duration of life of the people is becoming progressively shorter.¹ This is a serious state of things, and it demands the immediate attention of the state as well as of the educated community.

Actuarial
calculations of
duration of
life.

Migration is another factor which affects the size of the population. Migration is of two kinds: internal and external. Internal migration, again, may be casual, temporary, periodic, semi-permanent, or permanent. Casual or temporary movement of the people from one province or district to another goes on continually. For instance, the factory

Migration—

internal,

¹ In 1891 and 1901, the estimated values were 24·59 and 23·63 respectively, as compared with 22·59 in 1911. The estimated values for male lives in England rose from 44·07 in 1901 to 46·04 in 1911. These figures have been taken from the Actuarial Report of Mr. T. G. Ackland, included in the *Census of India*, 1911.

hands in the Calcutta mills are all drawn from up-country. Periodic movements are due to the seasonal demand for labour. Semi-permanent movements also are not infrequent. But the permanent type of emigration, or colonisation, takes place very rarely. The conservative habits of the people, their love of home, their poverty, their lack of knowledge of the labour conditions in other parts, all tend to keep them tied to their native villages. One important instance of a permanent movement, during recent years, has been the migration of a large number of people to the Canal Colonies in the Punjab.

external,

emigration,

immigration,

External migration may take the form either of emigration or of immigration. The former serves as an outlet for the surplus population of the country; but the actual total number of emigrants from India is so small that, for practical purposes, it is not of much importance.¹ The number of permanent immigrants into the country is exceedingly small. The question of emigration as a measure for relieving the pressure of population deserves careful consideration.

¹ At the time of the last Census, the total number of emigrants from India to other parts of the British Empire was slightly in excess of a million. The present tendency of emigration is to fall in number. In 1900-1 the total number of emigrants who left India was 26,508; but in 1910-11 it was rather less than 15,439. These emigrants usually go to the British colonies (Mauritius, Natal, British Guiana, British West Indies, Fiji, etc.), and to Dutch Guiana as unskilled labourers (*Statistical Abstract for British India*, p. 227). The conditions of existence in the Colonies for Indian emigrants are very far from satisfactory.

The caste system and social customs used in days of old to prevent absolutely the movement of labour from occupation to occupation. The influence of caste and of customs is, however, growing less every day, and restrictions are gradually passing away; but even now the movement is very far from being free.

from
occupation
to
occupation.

In the course of the last ten years the population of India has increased from 294 millions to 315 millions. The rate of increase has been a little over 7 per thousand per year. Now the question arises whether the population is increasing too fast. There are some thinkers who are alarmed at the rate of increase, and who assert that the pressure of population on the means of subsistence is one of the chief causes of the extreme poverty of the people, and who predict that this pressure, if allowed to grow unchecked, will in the near future produce great misery in the country. As a matter of fact, although the population is growing, it is not increasing as rapidly as in some of the other civilised countries.¹ Moreover, as Prof. Seligman points out, the problem of population is not one of mere size, but of efficient production and equitable distribution. The law of diminishing returns applies with full force only to agriculture, and the real antithesis is not between population and food,

Increase of
population.

¹ The increase is to be accounted for partly by an increase of area and partly by the adoption of a more careful system of enumeration, besides the actual growth of population. The rate of increase in England and Wales was 12·17 per cent. during 1891-1901, and 10·91 per cent. during 1901-11. In India the rate of increase during 1891-1901 was only 2·4 per cent.

but between population and wealth. When population increases, but the production of wealth remains stationary or increases in a lower ratio than the growth of population, the only possible consequence is the greater misery of the people. And this has been to some extent the state of things in India in the past. If, on the other hand, wealth and productive efficiency are increased simultaneously with the increase of population, the country will be able to support a much larger population than it does at present. This view of the future is held by, among others, Mr. E. A. Gait, one of the editors of the *Imperial Gazetteer of India*,¹ who says: "Apart from the non-agricultural forms of employment which are rapidly growing in importance, it seems certain that, even in the most crowded tracts, more scientific farming would greatly increase the present produce of the soil. There are, besides, many parts, *e.g.* Burma, where, even under present conditions, ample scope remains for expansion; and many others, such as Western Rajputana, where, with the aid of irrigation, crops might be grown on what is now a sandy desert."

¹ Vide *The Imperial Gazetteer of India*, 1903.

CHAPTER IV

THE SOCIAL STRUCTURE—(*Continued*)

SPECIAL FEATURES OF INDIAN SOCIETY

1. THE CASTE-SYSTEM

THE most striking feature in the structure of Hindu society is what is known as the caste-system. It is a very ancient institution, but when and how it first appeared it is impossible to say with any degree of certainty.

We find it vaguely alluded to in a few passages Origin. of the Vedas, and recognised in Manu's code, in the great Epics, and in the Puranas. In the Bhagavat Gita, Sreekrishna, the incarnation of the Deity, says, "I have created the four castes according to the qualities and occupations of their respective members." This seems to be the correct view of the origin of the system.¹

¹ M. Senart was perhaps right in saying, "Caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt themselves to the conditions with which they came into contact in India." It appears quite probable that, being surrounded on all sides by hostile aborigines, the Aryans found it necessary to set apart the hardiest portion of the population for the exclusive occupations of war and government. Thus perhaps was formed the Kshatriya caste.

Essential
feature.

The essential feature of the system is that "birth determines irrevocably the whole course of a man's social and domestic relations, and he must through life eat, drink, dress, marry, and give in marriage in accordance with the usages of the community into which he was born."¹

Caste tenden-
cies among
Mahomedans.

Mahomedanism, in its pure form, inculcates equality among all followers of the religion and is opposed to the system of a hierarchy of castes. But in India the contagion has spread to the Mahomedans, among whom caste tendencies are

Then, as engagement in warfare was found incompatible with the performance of religious ceremonies and the acquisition of learning and the imparting of education, the most intellectual and selfless among the people formed themselves into a separate class. Thirdly, as the importance of agriculture, industry, and trade was realised more and more with the growth of civilisation, a third class began to devote their energies exclusively to those occupations; and lastly, the less cultured among the Aryans, together with the conquered tribes, formed the Sudra caste. In course of time, subdivisions of these original castes were made, and many new ones came into existence. In the earlier stages of national development, as M. Senart points out, the principles underlying the social structure of the Greeks and the Romans were the same as those of the Hindus. In India, however, the distinctions became rigid and stereotyped; in Europe, society was soon able to throw off the shackles.

A caste is defined in the *Imperial Gazetteer of India* as "a collection of families or groups of families, bearing a common name which usually denotes, or is associated with, a specific occupation; claiming common descent from a mythical ancestor, human or divine; preferring to follow the same calling; and regarded by those who are competent to give an opinion as forming a single homogeneous community." How far this definition is correct it is not our business to discuss here.

¹ *The Imperial Gazetteer of India.*

visible. In some places, the social distinctions have become quite marked and well-defined.

The caste-system has undoubtedly many bad features, but it has some good points also which are not often appreciated by careless observers. Whether good or bad, changed conditions have led to a modification of the system. Occupation is not now necessarily the indication of a man's caste. Members of different castes are now-a-days to be found in almost every occupation. Caste rules have now become less rigid than before, and the modern tendency is to eliminate from the system such features as have been found unsuited to the economic organisation of modern society.

Caste-system
modified.

The chief economic significance of the system is that it fixes absolutely the supply of any kind of labour. The scope given for the play of competition thus becomes limited, and consequently the law of demand and supply is rendered either inoperative or oppressive in its operation. When there takes place any change in the economic world, labour is unable to adjust itself to the altered circumstances and suffers in consequence, sometimes very heavily. Wages and prices have very often to be regulated by custom or some other artificial means. Further, the institution of caste is ill-suited to large-scale production, in which minute subdivision of labour is essential; and which requires the supply of any kind of labour to immediately respond to the demand for it. Under the caste-system the people lose their adaptability to changed circumstances. The system, moreover, has its influence on the

Economic
significance.

Limitation of
competition.

Unsuited to
large-scale
production.

Capacities not
put to the best
use.

character of the individual. Where birth determines the whole course of man's occupation in life, there is little chance of his capacities being always put to the best use, and each profession may have to tolerate many persons who are incompetent or useless in that particular profession but who may perhaps do better in some other. Denying, as it does, equal opportunities to all, it often becomes the source of grave injustice to large classes of the community.

Inherited skill.

The result is a great economic loss. But, on the other hand, much economic advantage ensues from the fact that every man inherits a certain amount of skill from his parents and unconsciously imbibes much of the technical knowledge from the atmosphere of the particular profession in which he is brought up. Another great merit of the system is that, by limiting the influence of competition, it stands forth as the protector of the weak. . Everyone finds a place in the economic organisation—no one is absolutely helpless.

Caste the pro-
tector of the
weak.

Balance of
merits and
defects.

Whether or no the merits of the system are greater than its defects is not a question for the economist alone to answer. But the prevailing opinion seems to be that the advantages are far outweighed by the disadvantages. Some would regard the caste-system as the chief cause of the economic stagnation of the country and the political enslavement of her people.¹

¹ Mr. C. B. Phipson, in his excellent book, *The Science of Civilisation*, says: "No system could be more opposed to economic freedom than this [the caste system], or any devised more restrictive of economic development.... Caste presents

An important institution connected with the caste-system was the caste-guild of ancient times. Each caste was, to some extent, also a trade-guild. As a trade-union it used to insist on the proper training of the youth of its craft, to regulate wages to deal with trade delinquents, and to supply courts of arbitration for the settlement of disputes.

The caste-guild.

Its functions.

Its chief objects were to regulate competition among its own members, and to uphold the interests of the body in its disputes with other craftsmen. The decisions of the guild were enforced by social penalties or fines. The guild encouraged efficiency by means of rewards, and discouraged inefficiency by social disfavour. It also exercised the functions of a mutual assurance society; and by finding employment for the unemployed and helping the poor and the needy, the guild-system avoided the necessity of a poor-law.

Its objects.

The caste-guilds of India were, in many respects, similar to the guilds of mediaeval Europe; but there were many points of difference. These latter were not endogamous, and there was no bar to the admission into the circle of outsiders who had learnt the business. The common occupation was a real tie and a source of strength, not a symbol of

Caste-guilds compared with mediaeval guilds of Europe.

a solid barrier to mental development generally, or, to that enquiry into, or mastery over, the powers of nature without which there can be no rising to the higher levels of civilisation. It leaves, therefore, every people subservient to it at the mercy of whatever more advanced nation is interested in subduing them. . . . [In India] a fairly high level of economic development had been reached before the institution of caste arrested further progress."

disunion in the different parts of society as in the case of the Hindu guilds. Lastly, the European guilds might—as they did—expand and develop, while the Indian system was rigid and stereotyped.

Their importance.

There was a time when these caste-guilds were of the greatest economic importance. By their excellent organisation they largely promoted the production of wealth. The famous fabrics of rural India were developed under the supervision of these guilds. Caste-guilds as such are now to be met with only in a few places in India,¹ and even where they exist they do not exercise anything like their old influence. But there are trade- or craft-guilds in almost every part of India, the objects of which are similar to those of the caste-guilds of old, but which are rarely strong enough to perform their duties in a proper manner. The membership is not necessarily confined to one caste. The bond of union is not half so strong, and they lack the unity of sentiment and efficiency of organisation which ensure the success of the trade-unions of modern Europe and America.

Modern trade-guilds.

Mahomedan guilds.

The Mahomedans of India also have their trade-guilds, which are organised on principles similar to those of the Hindus. But the democratic organisation of Mahomedan society prevents these guilds from being stereotyped into castes. In some trades the guilds are well organised, and are strong enough to wield considerable influence over the members.

¹ The mention of guilds in Kautilya's *Arthashastra* proves that they existed long before the commencement of the Christian era. The highly-developed guild-system at Ahmedabad still exists.

2. THE JOINT-FAMILY.

In India, the unit of society is not the individual but the family. Among the Hindus, this family includes not only the husband, the wife, and the children, but many more members besides. The essential feature of the system is that the consumption of goods is common, and every member of a family shares in the prosperity or adversity of every other member.

Family the unit of society.

Consumption in common.

The Hindu law of property is essentially different from the laws which regulate property in the west. In Europe and America ownership, as a rule, is single, independent, and unrestricted. In India corporate property is the rule, and absolute unrestricted ownership is found only in a few parts of the country and in rare instances in the rest. The law in this respect is based on the joint-family system, which was, and to some extent still is, the backbone of Hindu society.¹

Joint property.

Originally, every Hindu family, and all its property, was not only joint but indivisible.² Now it has ceased to be so; but so long as partition does not take place, jointness is presumed, and every member has the right of enjoyment to the family property. The system is organised on the principle of subordination of all members to the head—not on co-ordination or equality of all members.

There is a great deal of divergence in the doctrines of the various schools of Hindu law. The Mitakshara school, which governs the greater

Different schools of law : Mitakshara,

¹ Mayne, *Hindu Law*, p. 293.

² *Ibid.* p. 332.

Dayabhaga.

part of Hindu society outside Bengal, is more rigorous in its regard for the security of the joint-family than the Dayabhaga school, which governs Bengal proper. According to the former, ancestral property is owned and enjoyed by the members of a family as a whole, the share of each remaining unascertained until and unless there is a regular partition. The person who is the head of the family for the time being is only the manager, and has no right to sell or dispose of it in any way, except for the benefit of the family or for legal necessity. Dayabhaga, however, gives greater powers to the head of the family, and, according to recent decisions, he is considered as the absolute owner of the property, having full rights of disposal over it. As for self-acquired property, both the schools give the owner full rights to it.

Merits of the joint-family system.

The Joint-Family system has existed in India for ages, but is now in a state of decay. It is regarded as a blessing by some thinkers and as a curse by others. Looked at from an economic standpoint, it appears to have merits as well as defects. The chief merit lies in the fact that almost everyone can be sure of a bare subsistence, which is the first condition of economic advancement. Children are not liable to be cast adrift into the world at a time when their physical and mental capabilities are as yet undeveloped. They receive a start which is a great advantage to them in their race of life. The aged, the weak, and the infirm are also taken care of, and are made useful members of society.

But, on the other hand, it should be noted that when the means of subsistence are secured without any effort on a man's own part, he loses the great incentive to work, and is apt to become lazy and dependent on others. Self-reliance—the great virtue without which no economic progress is possible—is thus discouraged. Economic freedom, which is such an important matter in the production of wealth, is also curtailed. Moreover, the burden of a large family makes a man afraid to undertake risks and unwilling to launch on new ventures. He is thus in a manner prevented from making the best use of his capacities.¹

Defects.

Sometimes, not only consumption but also production is found to be in common. Every member contributes by his labour to the production of the family wealth. In such cases, the members of the joint-family are like the members of a communistic or co-operative society, and the advantages of the joint system are secured without some of its usually attendant evils. The situation is reversed in instances in which only a few work and the rest depend on them for subsistence.

Sometimes,
production in
common.

As for the balance, the economic gain is in some cases greater, and in others less, than the loss.

¹ Justice Sir Sankaran Nair, comparing the English with the Indian law, says: "The one law is individualistic, and based on the inviolability of contract, with the result that success attended energy and labour. The other was rooted in communistic and family bondage, and was one of status-fostered indolence and stifled all energy" (Article headed "Indian Law and English Legislation" in the *Contemporary Review*, August, 1911).

Whatever may have been its merits in the past, the system is now steadily losing ground. •

Mahomedan
system.

The Mahomedans also generally live under the joint-family system, but among them there is no presumption of jointness. The bond of union, in fact, is not so complete as among the Hindus, and, consequently, the system is far less rigid. The Mahomedan law gives the owner of the property for the time being absolute dominion over it, whether such property be self-acquired or ancestral. He can dispose of it in any way he likes, provided that operation is given to the transaction during his lifetime. It is only in respect of dispositions by will that the donor's power is limited by the rights of his heirs.

3. THE LAWS OF SUCCESSION

Succession:

among
Hindus ;

There is no such thing as succession, properly so-called, in an undivided Hindu family governed by the Mitakshara law. The whole body of such a family constitutes a sort of corporation, and, on the death of any member, the property devolves on the remaining members by survivorship and not by succession. Succession takes place only when property is separate. Under the Dayabhaga law, however, succession takes place even to the joint property. The whole of the property passes to the male children, when there are any. If there be no male children, it passes to the next of kin. ^

among
Mahomedans.

Under the Mahomedan law, the property is divided, on the demise of its owner, among a larger

number of heirs, many of the near relations obtaining shares even when there is male issue.

The law of primogeniture does not exist in India except in the case of ruling chiefs or in a few families where there is a special custom to that effect. Thus, according to the Hindu as well as the Mahomedan law of inheritance, property, whether real or personal, is divided among a number of persons. The result of such division is that it prevents the accumulation of wealth in a few hands and enables a considerable number of persons to enjoy moderate wealth. It minimises the distance between the high and the low, and fosters a large middle class. Such a system is admirably suited in one respect to the industrial progress of a country, for it gives to a considerable part of the people something to start business with; and this amount not being large enough to live upon, most people are driven to work in order to be able to live in the standard of comfort proper to their social status. It fosters the growth of self-respect and develops habits of self-help and self-reliance among the people. On the other hand, it hinders large-scale production for want of a concentration of capital; and in a country where the Joint-Stock and the Limited Liability Company systems are rare, it tends to arrest industrial progress.

No primogeniture.

Division of property : its advantages,

disadvantages.

• 4. THE VILLAGE SYSTEM

As we have already seen, the great body of the people of India is rural. It is so, not because

I.E.

D

the people do not know the art of building towns, but because the occupation of agriculture makes it necessary for the people to live in villages.

Village communities.

Sir Charles Metcalfe's view.

From the very earliest times, the village has always been the unit of administration in India. Here, as in all other countries of old, the people gathered together in villages for better protection and mutual assistance. The peculiarity of India, however, lies in the fact that a system of village communities was developed in many parts of the country, which lasted many hundreds of years. Sir Charles Metcalfe gave an excellent description of these organisations, from which the following lines are worth quoting: "The village communities are little republics,¹ having nearly everything they can want within themselves, and almost independent of foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution; Hindu, Pathan, Mogul, Mahratta, Sikh, English, are all masters in turn, but the village community remains the same."²

¹ In Bombay, it was reported in 1819 that "these communities contain in miniature all the materials of a state within themselves, and are almost sufficient to protect their members if all other governments were withdrawn" (Elphinstone's *Report on the Territories acquired from the Peshwa*, 1819).

² Sir Charles Metcalfe continues: "This union of the village communities, each one forming a separate little state in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India, through all the revolutions and changes which they have suffered, and is in a high degree conducive to their happiness, and to the enjoyment of a great

Although the system of village communities is now in a state of decay, it has not yet been entirely overthrown. It still exists in a state of greater or less completeness in many parts of India, especially in the Punjab and Madras. In Northern India, these villages are usually walled in, and the people live within them as compact groups. Each village has its arable land and grazing field just outside the limits of the inhabited area. This land, together with the dwelling-houses, is technically known as the village. Its constitution and ownership may change, but the village itself as a local feature always remains the same.

The village.

The original cause of the foundation of village communities is to be found in the co-operation of a number of persons for clearing the jungle and for defence against wild animals and neighbouring enemies. But the bonds which hold together the village landholders are not merely physical but social and economic.

Origin.

The bond.

There are two types of villages—the Raiyatwari and the Landlord- or Joint-village.¹ In the first, the village contains a number of cultivating holders who usually till the land themselves, but sometimes employ tenants. These holdings are separate units—they are not shares of a whole

Two kinds :

Raiyatwari,

portion of freedom and independence." So also, in regard to Madras, the Fifth Report, 1812, says : " Under this simple form of Municipal Government the inhabitants of the country have lived from time immemorial. The inhabitants give themselves no trouble about the breaking up and divisions of Kingdoms."

¹ Vide Baden-Powell, *Land Systems of British India*.

belonging to them all. The several holders are distinct in interest, and the only bonds which unite them are locality, common subjection to the headman, and common services of the village artisans and menials. This form of village is universal in Madras, Bombay, Central India, and Berar; it also originally existed in the Central Provinces and Bengal.

Landlord-village.

In the Landlord-village, the holdings of the cultivating landholders are not separate units; they are parts of the entire area of the village which is owned by an individual or a family having the claim to be superior to the cultivating landholders. The proprietary body¹ is of common descent, and may consist of a large number of co-sharers. This co-sharing body rarely cultivates the land itself; more often, the land is cultivated by a subordinate body of tenants who pay rent to the landlord (or body of landlords).

Principles of sharing.

There are three principles according to which land is divided among the co-sharers: (a) The ancestral or family-share system (known as the *pattidari* system), by which each member of the co-sharing body takes the fraction of the whole which his place in the family 'tree' or genealogical table points out; (b) special customary system of sharing, *e.g.*, sharing in equal artificial lots (called the *bhaiachara* system), sharing by ploughs, or with

¹Sir Henry Maine thinks that property in land, as it is understood in Europe, is a comparatively modern institution, but Baden-Powell, a great authority on the subject, contests this view (*Vide* Baden-Powell, *Indian Village-Community*).

reference to shares in water, or shares in wells; and (c) the system of *de facto* holdings, by which what each now holds is regarded as the measure of his interest. The Landlord-village system prevails in the United Provinces of Agra and Oudh, the Punjab, and the North-western Frontier Province.

Landlord-villages owe their origin to one of Sources. three principal sources. First, they may have been founded by single persons or grantees or revenue farmers; or they may have been founded by the dismemberment of the houses of ruling chiefs; or thirdly, they may have been created by tribal groups or colonist associations, as for instance, the Jats and the Rajputs.

In each of the Raiyatwari villages there is an official headman (called *patel*, *mandal*, or *reddi*). Village officers. The Headman: His office has always been regarded as of great importance. He often exercises petty magisterial powers, and also decides petty suits either as an arbitrator or as a civil judge. He also performs his functions in Raiyatwari, various duties of a general character, concerning the well-being of the village. But he has no responsibility for the revenue, except that of his own holding. He holds a hereditary position, and is remunerated by the grant of a plot of land. In the landlord-villages the business of the village is entrusted to a punchayet or council of village heads, the leading man among them being selected as the representative of the body and the headman. and landlord-village. He is called the *lumbardar*, and is directly responsible for the revenue of the village.¹

¹ There may be more than one *lumbardar* in a village.

The Patwari : Another officer of the village is the *patwari* or accountant. He is entrusted with many important duties. He has to keep the village accounts of revenue payments by the proprietors or co-sharers, and outstanding balances; of rent payments by tenants, and of items chargeable to the common expenditure of the village. He has to produce and keep the village maps, field-registers, and other records of landed rights, shares, and interests. He fills up the statistical returns of the crops sown and harvested, the number of cattle, and such other things. He has to take note of all changes that occur in the ownership of land. Lastly, he has to report at once to the tahsil any unusual occurrence in the village. Besides these officers, there is a watchman or *chowkidar* in each village, and, in some cases, one or two other petty officers.¹

Village
economy.

Until recently, each village constituted an industrial unit, of which the chief feature was its self-sufficiency.² It used to be, to a large

¹ In a deed of gift by the minister of Bukka Raya, King of Vijayanagar, dated A.D. 1187, the following list of village officers is given : (1) Reddi, (2) Karnam (accountant), (3) Purohit, (4) Blacksmith, (5) Carpenter, (6) Money-changer, (7) Policeman, (8) Potmaker, (9) Washerman, (10) Barber, (11) Messenger, (12) Worker in skins.

² *Vide* Baden-Powell, *Land Revenue Systems of India*, and Sir T. Morison, *Industrial Organisation of an Indian Province*. In regard to the South Indian village, Mr. T. Ramakishna says : " It will be seen that this village is a little world in itself, having a government of its own and preserving intact the traditions of the past in spite of the influences of a foreign government and a foreign civilisation. Every member of the little state of Kalem-bakam regularly performs the duties allotted to him, and every-

extent, independent of relations with the outside world, so far as its internal economy was concerned, for within its own boundaries the village possessed all the factors which were requisite for the supply of its few wants. The great bulk of the people is agricultural. The cultivators take lease of small plots of the village land either directly from government or from a landlord (or a body of joint-landlords), to whom they pay rent. They work the land themselves with the aid of their family members and sometimes also of hired servants. They supply the small capital from their own savings or borrow from the village landlord or the money-lender. They are also themselves the managers, organisers, and experts of their petty farms; and they carry their produce to the market—which is held once or twice in the week—to exchange it for other commodities.

Besides the two classes of landlords and cultivators, there is a third class of inhabitants in the village composed of the artisans. The weaver, the blacksmith, the oilman, and the jeweller supply the needs of the small society, and are recognised members of the village community. The petty shopkeeper performs the important function of exchanging the different products. The money-lender—who also usually combines other functions, especially those of a wholesale grain merchant—is,

Classes in the village.

thing works like a machine. Those that render service for the upkeep of the village constitution are paid in grain or have some lands allotted to them to be cultivated and enjoyed free of rent” (*Life in an Indian Village*, p. 83).

by virtue of his position, a very important member.

The place of competition in village economy.

The services of the artisans, etc., used to be, and to a small extent still is, paid for in kind. In the village economy there is very little competition¹ with the outside world, though within the village the motive of self-interest naturally prompts everybody to find the best advantage for himself. Wages and profits are, to a large extent, governed by custom and are comparatively fixed and inelastic. Division of labour is carried to some extent, but as division depends on the extent of the market it cannot be carried very far. Labour is immobile; and what little capital there is in the village is locked up in the land.

Division of labour.

Immobility of labour.
Want of capital.

Sense of unity.

The different classes in the village are conscious of the fact that each is dependent on the others, and that the interests of each class are bound up with those of the rest. Thus there grows up a strong sense of unity and solidarity which helps to preserve the integrity of the village.

Life in the village,

The villager lives a simple, and in years of good harvest, a contented life. There is very little wealth in the village, but the evils of capitalism are also absent. The cultivator or artisan knows little of the comforts and luxuries of urban life, and does not miss them. He knows that there are things higher than those of this world, and strives to attain them in the way which his religion and traditions point out to him.

¹ Sir Henry Maine says, "Competition, that prodigious social force, of which the action is measured by political economy, is of relatively modern origin" (*Vide Maine, Village Communities*).

Such was the village system in its pure form. But to-day it is hardly to be found in its entirety in any part of India. The economic conditions of the country are now undergoing a more or less complete transformation, and the village must necessarily change to keep pace with the march of events. The impact of western civilisation is also working a change in the ideas and ideals of the villager, and is making it impossible for him to retain his old simplicity of life. changing.

5. STATUS AND CUSTOM

In India, every man is born into a certain status in society and family, and the whole course of his life is determined by such status. Custom was, in the ancient days, the supreme regulator of his actions and relations in life. The influence of custom is, however, growing less every day. In India, as in every other progressive country, the movement has been and is from status¹ to contract. Yet even now it may be asserted of a majority of the Indian people that their actions are governed more often by custom than by free competition. The late Mr. Ranade said, "There is neither the desire nor the aptitude for free and unlimited competition, except within certain predetermined groups or grooves. Custom and state regulations are far more powerful than competition, and status more decisive in its influence Influence of custom

¹ Status may be defined as the position or standing of a man as determined, not by his own free will, but by circumstances over which he has no control. Status is opposed to contract.

than contract."¹ The influence of custom, however, is not necessarily harmful. In many cases it is highly beneficial, for custom often stands forth as the protector of the weak against the strong. It furnishes an alternative principle to that of unlimited competition, which, while it makes the strong stronger, has often a tendency to extinguish the weak. On the other hand, competition helps in bringing out the best in man and nature, while custom not unoften hinders such development.

Under the Hindu as well as the Mahomedan administration, and, to a large extent, during the
on rents, early days of the British rule, custom used to regulate rents. Later, however, competition tried to assert itself in the fullest measure. The government then realised that the effect of unlimited competition would be to injuriously affect the interests of the masses of the people and to entail great misery on them. They, therefore, decided to confine the operation of competition within reasonable limits; and the main object of their rent legislation has been to secure to the tenants the rights conferred by custom. Custom thus is still, to a large extent, the foundation of rents in India. The Ricardian doctrine of rent has, practically speaking, little application here; and, consequently, the conclusion drawn from that doctrine, namely, that rent forms no part of the price of agricultural produce, is also inapplicable to the case of India.

on wages, Custom was the chief regulator of wages in India

¹ Vide *Essays in Indian Economics*, by the late Mr. Justice M. G. Ranade.

till the middle of the last century. Nowadays, however, they are governed more by competition than by custom ; but still they are not so elastic and responsive to changes of circumstances as in Europe or America. The fluctuations in the rates of wages are slight,—the deviations from the usual wage levels of any particular locality are always confined within narrow limits. In the towns, owing to the ever-increasing demand for labour, competition has now established itself as the determining factor in wages, but in the country, especially in the remote villages, custom continues to govern the earnings of labour to a large extent. The economic theory that wages depend on demand and supply of labour is as true in India as elsewhere, but the law finds here a limited scope for its operation.

Prices also used at one time to be determined, to some extent, by custom. But nowadays they almost always depend entirely upon the relations between demand and supply. It is only in parts of the country which are not easily accessible that custom is now found to exercise any considerable influence on prices.

CHAPTER V

PRODUCTION

1. GENERAL OBSERVATIONS

Special con-
ditions of

land,

labour,

OF the factors of production, natural resources are, of course, of primary importance. India, as we have seen, is very rich in this respect. There is an abundance of fertile land as well as of mineral resources. The productivity of land, however, depends on rainfall, which is a very uncertain factor in the situation. Land is split up into millions of small plots, which are held by a numerous body of petty farmers. Practically all land utilised for purposes of production is subject to the payment of rent.¹

Labour is, except in industrial centres, plentiful. Wages are low, but as the workmen are ignorant and mostly unskilled, the out-turn is comparatively small, and, therefore, labour can hardly be said to be cheap. Movement of labour from place

¹ The no-rent margin is in most countries invisible and indefinite; and the hypothesis of no-rent land is true, in practice as distinguished from theory, only in countries where there exists an active competition among the landowners, and where the demand for land has not yet outstripped the supply of it. In India, although there is plenty of land lying waste in unpopulated tracts, yet in the populated parts there is hardly any productive land left unutilised.

to place is very irregular, and that from occupation to occupation is rare. Competition, when it acts, affects the labourer injuriously. The labourer is diligent and sober, but poor, unenterprising, and unambitious. He possesses a natural quickness of intelligence,¹ but education has not taught him how to put it to the right use. He is poor, and often heavily indebted. He usually works on his own account, and takes upon himself the functions of the capitalist and the business manager, which he is unfit to properly fulfil. The dignity of labour is hardly appreciated by the higher classes of society. Division and differentiation of labour is practised only to a limited extent.

Indigenous capital is not only small in the capital, country, but is also shy.² Where there is wealth, lack of enterprise often prevents the owner from investing it in profitable undertakings, for he does not fully recognise the necessity of taking risks, and has lost the habit of forecasting the future.

Business organisation, which is perhaps the most organisation, important factor in the success of modern industry, has not yet been developed to any appreciable extent in India. Practical experience—the best school for learning business—has not taught the people how to

¹ Sir John Strachey says, "The agricultural classes are certainly not inferior in intelligence to the peasants of many of the countries of Europe" (*India, its Administration and Progress*, p. 394).

² This is believed to be the result of the misrule from which the country suffered in the eighteenth century, and which prevented the accumulation of wealth and dulled the desire of the people to improve their economic condition.

manage big concerns and to properly discharge the multifarious and arduous duties of the modern entrepreneur. Industrial training and the acquisition of commercial knowledge have been, until recent years, most lamentably neglected. The value of co-operation and combination is not yet fully appreciated. Men of ability and character rarely engage in business, and the result is that those who do, do not inspire the faith and confidence which is the corner-stone of modern industrial activity.

Result.

These are the chief among the drawbacks which, in spite of the richness of natural resources, have prevented the production of wealth from proceeding at a rapid rate. The annual production is not at all comparable to that of any other civilised nation. The country generally is not in a prosperous condition. There are some who would go so far as to assert that the condition of the middle classes of society has decidedly become worse than before, while the poorer classes lead a precarious sort of existence from year's end to year's end. A large percentage of the people never have a silver piece in their possession.

Average
production.

Average
income.

The average farm production per head has been calculated at Rs. 40 per year.¹ The average income per head, as computed by eminent Englishmen, is Rs. 30 (£2);² but Mr. William Digby and Mr. Dadabhai

¹ Mulhall, *Dictionary of Statistics*. This is the figure also accepted by Sir Robert Giffen (vide *Economic Journal*, 1904).

² In the early eighties of the last century Lord Cromer (then Sir Evelyn Baring) estimated the average income at 27s. per head; the Famine Commissioners of 1880 at £2; in 1903, Sir Robert Giffen calculated it at about £2; and in 1912, Sir Patrick Playfair regarded the latter figure as the correct estimate.

Naoroji would put it at an even lower figure. In calculating the income of the ordinary cultivator or labourer, the incomes of the rich and well-to-do classes must be deducted from the total national dividend. This would give us something like 18s. as the income per head of the bulk of the people. The income in India compares very unfavourably with the incomes of the other civilised countries. The average income of the people of the United Kingdom was twenty years ago, as given by Mulhall, £37, or 18·5 times as great as that of India. The average in the United States was £39; that in France, £27·8; and in Germany, £22·2.¹ Since then, the average income in every country has considerably increased. The average in the United Kingdom, according to Mr. Lloyd George, is now £52. In India, however, the income has not increased to any appreciable extent.

Reliable statistics of the wealth of India² are not available. The average wealth per head of the population has been variously computed at from £10

Wealth.

¹ *Vide* Mulhall, *Dictionary of Statistics*.

² India was celebrated in the earliest ages for her immense wealth. She was at one time the richest country in the world. It was the wealth of India which was the cause of the foreign invasions from the time of Alexander down to the eighteenth century. When Sultan Mahmud of Ghazni sacked the temple of Somanath, the booty was so large that it was impossible to calculate its value. At Kanauj, Mahmud was so much struck by the splendour and magnificence of the city that he declared that "it was only rivalled by the high heavens." The spoil of Nadir Shah was valued at £625,000,000 (*vide* J. S. Cotton, *Colonies and Dependencies*, and Lethbridge, *History of India*).

to £20.¹ The average wealth of the United Kingdom is £334 per head; of France, £252; of the United States, £270; and of Germany, £246.

Better things
hoped for in
future.

This is certainly a very gloomy picture; but it need not fill us with despair about the future. Strenuous and persistent efforts on the part of the people are sure to lead to an immense improvement in the economic situation. As a matter of fact, signs are already visible of the approach of a better state of things. The defects mentioned above are not inherent in the character of the people, but are the result of circumstances which they are now endeavouring to control and modify. We already find that a wave of enthusiasm for industry is passing over the land. A new spirit of enterprise is abroad. Labour is trying to shake off its lethargy and ignorance; capital is overcoming its shyness; and the people are preparing themselves for a new and vigorous industrial life.

Summary.

The economic position, so far as production is concerned, may be summed up as follows: The productive capabilities of India are great. She possesses an abundance of natural resources and a plentiful supply of cheap labour; but she lacks capital, enterprise, and organisation. The defects

¹ £10 was the estimate of Sir Robert Giffen in 1903. The aggregate wealth of the different countries was at that date: England, £15,000 millions; the United States, £18,000; Germany, £16,000; France (exclusive of public wealth), £9,000; India, £3,000. According to the estimate of Herr Steinman-Bucher, the national wealth of Germany increases annually by from £550 millions to £600 millions, and now amounts to nearly £20,000 millions.

are, however, remediable, and, as a matter of fact, attempts are being made to overcome them.

2. AGRICULTURE AND MANUFACTURE COMPARED

Before passing on to a somewhat detailed description of the agricultural and manufacturing industries of the country, it would be well to note the chief characteristics of a mainly agricultural country as compared with those of a chiefly manufacturing country. They are:

Chief features
of the two.

(a) In a mainly agricultural country competition, or rather freedom of enterprise—which is the chief feature of modern industry—cannot have its full application. The agriculturist has to go to the land for his work; but raw material can be brought to the manufacturer to be worked on by him.

(b) The agriculturist has to depend very largely on nature; he has to adapt his work to the seasons. But the manufacturer is more free in this respect.

(c) Agriculture does not submit to the large-scale system to the extent that manufacture does, and much less specialisation is possible in the former than in the latter.

(d) As the produce of agriculture depends largely on factors which are beyond human control, *e.g.*, rainfall and other weather conditions, it is uncertain. In manufactures the produce is sure.

(e) In agriculture, the law of Diminishing Returns applies with full effect. In manufactures, the effect

I.E.

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of that law is often more than counterbalanced by the law of Increasing Returns.

(*f*) In an agricultural country labour is generally immobile, because it is inconvenient and wasteful to the labourer to move from one plot of land to another; and where there is peasant proprietorship there can hardly be any movement at all. In a manufacturing country there are no obstacles to mobility of labour beyond the ordinary obstacles of the ignorance, poverty, and conservative habits of the labourers.

(*g*) As the operations of agriculture are few and simple, there is much less scope for the division of labour in agriculture than in manufactures.

(*h*) The profits of manufactures are higher than those of agriculture. As a result, when exchange transactions take place between the raw materials of one country and the manufactures of another, although both countries benefit by the exchange, the gain of the latter is greater than that of the former.

(*i*) The production of wealth being larger in a manufacturing country, it is capable of supporting a more numerous population than an agricultural country.

(*j*) Lastly, while agriculture enables a large number of people to live independently, and fosters in them self-reliance and other moral virtues, manufactures tend to the destruction of the freedom of the workmen and to the loss of some of their higher qualities.

CHAPTER VI

PRODUCTION—(Continued)

1. AGRICULTURE

AGRICULTURE is, of course, the most important industry of India. It gives employment to two-thirds of the total population of the country, and of the rural population nearly 90 per cent. are connected with it, either directly or indirectly.

People mainly engaged in agriculture.

In a large country like India, the productivity of the land cannot but differ from place to place. We have on the one side the exceedingly fertile black cotton-soil and the alluvial land of the Gangetic Delta, and, on the other, the barren rocks of the Vindhyan hills and the sands of western Rajputana. Intermediate between these two extremes is to be found almost every possible variety of fertility. Speaking generally, however, we may say that the land is fertile in India.

Productivity of land.

Land may be classified in a variety of ways. The chief classifications adopted are those into cultivated and uncultivated; cultivable and non-cultivable; irrigable and non-irrigable; *ek-phasi* and *do-phasi*, or in other words, land which yields one crop in the year and that which gives two.

Land classified.

Produce
depends on
rainfall.

Harvests :

rabi and
kharif.

The *rabi* less
dependent on
rainfall than
kharif.

The actual produce of any year depends on the amount and distribution of the rainfall. The periodicity of the seasons often allows of two, and in a few cases, *e.g.*, the irrigated parts of the Madras deltas, of three, harvests in the year. Double-cropping is possible in about one-seventh of the total cultivated area of India.

The two main harvests are the *kharif*, or the summer crop, and the *rabi*, or the winter crop. The *kharif* crops require much water for their growth, and, therefore, are sown as soon as the south-west monsoon commences, and they are reaped between September and November.

The *rabi* crops, as the name implies, are less dependent on rainfall. They are usually sown in October and November, and they ripen in March and April. The conditions affecting their growth being different, the character of the two kinds of crops also differs. This difference in character, however, is specially marked in Northern India; but is less marked in Bengal, and still less in Madras. During the period of their growth they are subject to a considerable degree of cold, which limits the choice of staples. In Bengal and Madras, very much the same kinds of crops may be grown in summer and winter.

In the Bombay presidency, which gets almost the whole of its rainfall from the S.W. monsoon, *kharif* is the chief kind of crops. Madras grows chiefly the *rabi* crops, for it is in winter that the N.E. monsoon brings rain to the province. In Northern India the south-west monsoon rain gives the condition

necessary for the growth of varied *kharif* crops, while the winter weather is well suited to the *rabi*.

Indian crops may be divided into (1) cereals, (2) pulses, (3) oil-seeds, (4) fibres, (5) dyes, (6) drugs, (7) spices, (8) table-vegetables, (9) pot-herbs, (10) miscellaneous crops, (11) fruits, (12) fodder crops, and (13) root-crops. This division, however, is not strictly logical, as some of the crops fall into more than one of the classes. A brief account of the chief crops is given below, which will perhaps be found useful.

classification
of crops.

About 80 per cent. of the cultivated area is under food-crops. Rice is grown in areas of heavy rainfall, as, for instance, Bengal, Assam, Burma, and the coast districts of Bombay. Not only is it far the most important crop of Bengal, but over 34 per cent. of the cultivated area of India is under rice. The varieties of rice are innumerable. In Bengal there are two main harvests, the *aus*, or early crop, and the *aman*, the later crop. The *aus* does not require as much rainfall as the *aman* does. The *aus* rice is all coarse, and is eaten by the poorer classes alone; but it serves as a provision against famine when there is a failure of the rains. Out of 25 million acres cultivated in Bengal, $16\frac{1}{3}$ million acres are under winter rice, $5\frac{1}{3}$ under autumn rice. The total annual yield is about 30 million tons. Rice is an important crop in Madras, Bombay, and Burma¹

The chief
crops :
Rice.

¹ Although Bengal is the principal producer of rice, Burma is the largest exporter (vide *Agricultural Statistics* and the *Moral and Material Progress of India*).

also. In the United Provinces and Oudh it is grown either in damp localities or with the help of irrigation. It is practically the sole crop in Deltaic swamps.

Wheat.

Wheat is grown in more or less quantities in every province. The great wheat-producing tracts, however, are the United Provinces, the Punjab, Behar, the Central Provinces, and Rajputana. The conditions favourable for the growth of wheat are exactly the reverse of those of rice; consequently, we find that, broadly speaking, where rice thrives, wheat does not. Wheat is a *rabi* or winter crop, and wherever possible, it is irrigated. The area under wheat has greatly expanded with the extension of canal irrigation. There are two chief classes of wheat, soft and hard. Indian wheat compares very favourably with the wheats of other countries, and the total annual yield is about 10 million tons. India is, next to the United States and Russia, the largest wheat-producing country in the world.¹

Barley and
Oats.

Barley is grown to a small extent all over India, and chiefly in the United Provinces. It serves as food for men as well as animals. Oats are a very minor crop in India.

¹ The total acreage under wheat in the different countries are (in million acres): United States, 48; Russia, 46; India, 27; France, 16; Argentine, 11; Canada, 7; Germany, 5; United Kingdom, 1.7. The yield per acre in bushels in these countries was in 1907 as follows: 13.6, 9.7, 11.4, 19.9, 10.6, Canada not known, 29.6, 31.3 respectively. Since then, the yield per acre in Germany has considerably increased, owing to improved systems of cultivation.

Maize is grown in most parts of India, but in the United Provinces it forms an important food-crop. Maize.

Millets are grown extensively in almost every part of India. There are several varieties of this crop, the chief being *juar*, *bajra*, and *ragi-juar*, which is the staple grain-crop of Southern India. Millets are also cultivated as a fodder-crop. Millets.

Among cereals is also classed buckwheat, the grain of which is very nourishing. It is grown in the Darjeeling hills and also in the Central Provinces and Behar. Buckwheat.

Next to cereals, pulses occupy the most important place as food-grains. Various kinds of pulse-crops are grown in India; the most important of these are *arahaar*, *chana*, *musuri*, *urd*, *mug*, and *kalai*. Pulse-crops thrive best in the United Provinces and Behar. In the Deltaic portion of Bengal the quality of these crops is not very good, an excess of ordinary salt being injurious to them. Some of the varieties of pulses are used as fodder for cattle. Pulses of various kinds.

Oil-seeds form very important crops in every part of India. Next to cereals they occupy the largest area in Bengal, and the total yield is about $2\frac{3}{4}$ million tons. There are several kinds of these, the more important among them being mustard (*rye*, *sorson*, and *tori*), linseed (*tisi*), *til*, castor (*rehri*), *sorguja* and ground-nut. Oil is also obtained from fruits, such as cocoa-nut and mahua, from various flowers, and from cotton-seeds. Of late Oil-seeds.

Cocoa-nut.
Ground-nut.

years, cocoa-nuts¹ and ground-nuts have become important articles of export, and there has been a sharp rise in their price. Castor-seed is also important because the *eri* silk-worms are reared on its leaf. The enormous export trade in oil-seeds involves a great loss to the country. It is desirable, therefore, to export only the oil and to retain the cake for use as animal food or manure in the country.

Jute.

Among the fibre-crops, jute and cotton, of course, are the most important. Bengal holds the virtual monopoly of jute in the world. The area under jute is a little over 3 million acres. There are extensive areas in some of the other provinces of India also, which may prove suitable for this industry. It is chiefly grown on land which is liable to be submerged in the rainy season. The conditions which are suitable for rice are also suitable for jute. It is a very paying crop. The first mention of jute as an article of export was made in 1828. Three-fourths of the product are now exported out of the country. The out-turn of jute in Bengal is now estimated at about 9 million bales (of 400 lbs. each).² It is

¹ "While little attention has been given to the growth of cocoa-nut by the Agricultural Department, it seems probable that more will be given in future in the provinces where the crop is of importance, as it is one which requires the investment of capital, and is, therefore, suited to the circumstances of land-owners whose sons may profit by education at Agricultural Colleges" (*Report on the Progress of Agriculture, 1912-13*).

² The price of jute in 1913 was very high, namely, £3 15s. per bale. Mr. F. Smith, Deputy Director of Agriculture, Bengal, thinks that the present jute tract in Bengal, Behar and Assam

now grown in many places where rice used to be grown before; and this is a matter deserving of consideration.

Two other fibre-crops allied to jute are Bombay hemp or *mesta-pat*, which is regarded by experts as even superior to jute, and *sunh-hemp*. Rhea is another important fibre-crop. Great hopes are entertained of the prospects of this industry in future. Aloe-fibre is also a useful economic product, which is grown only in tropical and sub-tropical countries.

Mesta-pat.
Sunn-hemp
Rhea.

Aloe-fibre.

Cotton holds a very important place among the agricultural products of India. The total area under cotton is 22 million acres, and the annual yield is about $4\frac{1}{2}$ million bales. It is grown more or less over almost the whole of the country. The principal cotton-growing tracts, however, are the plains of Guzerat and Kathiawar, the Tinnevely, Madura, Coimbatore, and Ceded Districts of Madras, the highlands of the Deccan, the valley of the Central Provinces, and Behar. They fall into two classes: cotton-crop and tree-cotton; but there are numerous forms of the cotton-crop, and tree-cotton also is of several kinds. In the Deccan the most suitable soil for cotton is the black cotton-soil. The quality of the product is inferior to that of the United States, and the yield per acre is also less.

Cotton.

can easily produce 20 million bales, and that the area under jute can be increased by 3.2 million acres without affecting the food-crops of the Provinces. In order that India may retain the monopoly in jute, Mr. Smith urges the people to adopt more improved methods of production so as to keep down the cost and thus be able to successfully compete with any possible rivals (*vide his Jute Crop in 1914 and its Future*).

In Sind, Egyptian cotton had been grown for several years, but as it requires more water than other kinds of cotton, American cotton has been substituted for it. "Cambodia" or "Tinnevely" cotton, which was imported a few years ago, grows well in the red soil of the Madras Presidency. It is superior to the American variety in quality and ginning out-turn. Although the cultivation of indigenous cottons are more remunerative to the farmer in non-irrigated tracts, the prospects of the production of long staple cottons are decidedly favourable in the following parts: Sind, Punjab, Gujrat, Southern Madras, and the Central Provinces. Mr. Arno Schmidt believes that cotton cultivation is capable of being greatly improved, and that "the cotton crop of India can be doubled without even interfering with the growing of food supplies."¹

Simul and ak.

The simul (silk-cotton) trees (as also the common *ak* which grows wild in sandy places) yield a silky fibre which can be converted into a valuable vegetable silk of fine quality.

¹ Report by Arno Schmidt, Secretary to the International Federation of Master Cotton Spinners' and Manufacturers' Association. In reply to Lord Morley's statement in 1910 that more cotton-growing may mean less wheat and other food-crops, Mr. Schmidt urges the following points: (1) there is a need for specialisation in Indian agriculture, and cotton, being a very remunerative crop, ought to be given the first place in suitable districts; (2) cotton may be grown in rotation with some other crop, and the most suitable rotation crops are jowar and wheat; (3) the increased production of cotton will increase the income of the people, and if the cultivator has the money he can buy food from other parts of the country.

Indigo was at one time one of the chief crops of India. The use of aniline dyes has, however, greatly diminished its importance. Its cultivation has now ceased in Bengal, but has been continued in small quantities in Behar and the United Provinces. The chemical dyes are inferior in quality to indigo and other vegetable dyes, and a revival of this crop is not altogether impossible.

Poppy cultivation is mainly restricted to Behar and districts of the United Provinces north of the Ganges. In British India it is conducted on behalf of the government, and in pursuance with an agreement with China, the area of cultivation has now been greatly reduced. Poppy is also cultivated in some of the Native States of Rajputana and Central India. It is a *rabi* crop.

The total quantity of tobacco grown in India is large. It is grown in every district; but the chief places of production are the Tirhut districts of Behar, Rangpur in Bengal, and certain districts of Madras.

The chief tea-growing tracts are Assam, the Darjeeling and Julpaiguri districts in Bengal, the Nilgiris in Madras, Dehra-Dun in the United Provinces, and the Kangra valley in the Punjab. The amount of total production is about 300 million lbs., valued at about 14 crores. The export trade of tea is already large, and there is room for further expansion. The cultivation of coffee is confined wholly to Southern India, and it seems to be declining owing to competition with Brazil. The two main centres of the cultivation of cinchona

Tea, Coffee,
and Cinchona.

are Darjeeling and the Nilgiri hills. It is a government monopoly.

Table

Vegetables.

Of Table Vegetables a large variety is found in India. The most common and important is potato. It is usually grown after *aus* paddy or jute; in tracts of the country where potato is the principal crop, it often forms the only crop of the year. Deep cultivation is essential for the growth of the crop. The other common vegetables are *palvals*, brinjals, cabbages, cauliflowers, tomatoes, and turnips. Akin to potatoes is cassava, called *simulabu* or *sarkar-kanda*. This vegetable sometimes serves as the chief food during a famine. It resists drought and yields a nourishing and palatable food. A more extended cultivation of this and other drought-resisting articles is desirable as a protection against famine.

Fruits.

Nowhere, perhaps, in the world can a larger variety of fruits be found than in India. The cultivation of fruits is not, however, undertaken according to proper scientific methods. If that is done, the quality of the fruits is sure to be improved and the yield greatly increased. New fruits suited to the conditions of the climate and the soil ought also to be introduced. India is capable not only of supplying herself abundantly with fruits, but also of carrying on a lucrative trade with other countries.

Sugar.

Sugar was, at one time, a very flourishing industry in India. It has now greatly declined owing to the importation of foreign sugar. It still possesses, however, great possibilities, and in recent years there have become visible signs of a revival. Sugar

is regarded as a half-manufactured article. In India it is obtained either from the sugar-cane or the palm. The area under sugar is $2\frac{1}{2}$ million acres, and the annual yield is about $2\frac{1}{2}$ million tons. The best cane is grown in the United Provinces and in some districts of Behar. Palm-sugar is manufactured either from the juice of the ordinary palm or of that of the date-palm. The date-sugar industry of Bengal, which is now languishing, is capable of being made profitable, as the yield is certain, and very little expense has to be incurred for cultivation.

Although spices of various kinds are grown in different parts of the country, the total production is not sufficient to meet the demand; and a great extension of their cultivation is needed. Spices.

Among the miscellaneous crops the more important are lac and India-rubber. Lac is a resinous incrustation formed on the twigs of certain trees. Assam, Burma, and the forest districts of the Central Provinces and Nagpur are the chief sources of its supply. The importance of India-rubber as an economic product is being recognised more and more widely every day, owing to the numerous technical purposes for which it is utilised. In India, its principal sources of supply are Assam and Burma. If the cultivation of rubber on a large scale could be made successful in India, it would add materially to the national income. Lac and
Indiarubber.

Sericulture was once a profitable industry, but towards the middle of the last century it declined. At present it is showing signs of a revival. It has Sericulture.

great possibilities, and with the adoption of proper methods of rearing, hatching, and reeling, is likely to be a source of wealth to the country. The chief area is in selected parts of Bengal, Assam, the Central Provinces, and Kashmir.

Fodder-crops. The crops most largely used as fodder-crops are *juar*, *bajra*, and *ragi*. In the Punjab and in Behar *juar* is largely cultivated as a fodder-crop. It is also grown in some parts of Bombay. In Madras *ragi* mostly takes the place of *juar*. Sugar-cane, as a fodder-crop, is used principally by the European planters in Behar. Grams, oats, barley, turnips, and prickly pears are grown in different parts of the country as fodder-crops. Some kinds of trees are frequently very valuable as supplying fodder for cattle. Very little, however, is known of the comparative feeding values of Indian fodders. It is needless to say that the cultivation of fodder-crops is very necessary for the improvement of cattle.

Agricultural statistics.

Accurate and reliable statistics regarding the agricultural produce of India are not available. But the following figures¹ will give the reader approximate ideas :

	Million acres.
Net area of land by professional survey,	618·6
Area under forest, - - - -	80·8
Not available for cultivation, - -	149·6
Cultivable waste other than fallow, -	114·7
Fallow land, - - - -	55
Area irrigated, - - - -	40·6
Net area sown with crops, - -	216

¹ The figures are for the year 1911-12 (vide *Agricultural Statistics of British India*, and *Statistical Abstract for British India*). Figures are not available for the Native States.

		Million acres.
Total area under food-grains, -	-	195
„ „ other food crops, -	-	7.5
„ „ sugar, -	-	2.5
„ „ coffee, -	-	0.1
„ „ tea, -	-	0.5
„ „ oil-seeds, -	-	16.5
„ „ cotton, -	-	14.5
„ „ jute, -	-	3
„ „ opium, -	-	0.2
„ „ indigo, -	-	0.2
„ „ tobacco, -	-	1
„ „ fodder-crops, -	-	4.9

Of the total area under food grains a little more than one-third is under rice, slightly more than one-fifth under wheat, and about one-fourth under bajra. The average out-turn of wheat in India is $11\frac{1}{2}$ bushels per acre, while it is $31\frac{1}{3}$ bushels in England. Area under food-crops.

Arboriculture is a science akin to agriculture, though trees can hardly be classed as agricultural crops. The forests in British India are mostly under State control. They are classified, for departmental purposes, into (i) reserved, (ii) protected, and (iii) unclassified or public forest land.¹ Arboriculture.

¹ The forests of India are divided into six classes. The *evergreen* forests are found in the West Coast of India, in Burma, in the Andamans, and in the sub-Himalayan tracts to the east. They contain various kinds of large trees. The *deciduous* forests occur in parts where there is a sufficient rainfall; teak and sal are the most important kinds of timber. The *dry* forests are found chiefly in the Punjab and Central India. The *Alpine* forests are in the Himalayas, where deodar, cedar, pine, oak, and other trees grow. The best example of *tidal* forests is the Sunderban in Bengal. The *riparian* forests occur in the Punjab and in Burma.

Afforestation.

Beneficial
influence of
forests.

India is capable of growing various kinds of trees. They grow naturally in places where there is an abundant rainfall; but they can be grown everywhere,—even in the arid tracts. At one time almost the whole country of India was covered with trees. In the first half of the nineteenth century, however, the matter was badly neglected, and many parts of the country were denuded of forests. The propagation of trees which yield starch, oil, sugar, vegetables, and fibres is of vast importance to a country where a failure of agricultural crops through drought or inundation is of frequent occurrence. But apart from their invaluable uses for food, fodder, and timber, trees are highly useful for their influence on the climate and rainfall. The presence of trees reduces the temperature of the atmosphere, while radiation is hindered at night. Trees thus produce the effect of equalising temperature; and by keeping the atmosphere moist they induce the fall of rain.¹ Beneath the shade of trees a rich layer of humus is formed which keeps the roots cool in summer and warm in winter, besides absorbing and retaining a great quantity of water. It is in this way that trees sometimes change the character of the poorest soils permanently for the better. Further, they prevent the soil from being washed away or denuded by rain. Trees also act as a most

¹ This has been proved by experiment. For instance, in the Delta of the Nile, since the planting of trees the average number of rainy days in the year has increased from 6 to 40. In India many fertile parts of the country have become sterile since the destruction of forests (*vide* N. G. Mukherji, *Handbook of Indian Agriculture*).

valuable fertilising agency of surface soils by bringing up food materials from the depth of the land and storing them in leaves, which afterwards fall and get mixed up with the soils. Lastly, they serve as break-winds in localities where high winds are an objection. It is essential, therefore, that the earnest attention of the people as well as of the Government¹ should be turned in this direction.

Pisciculture is analogous to agriculture. Fish is valuable as human food and also as manure for agricultural purposes. Fisheries afford employment to a considerable number of men; but the industry is carried on in a very inefficient manner, and can hardly be said to be a prosperous one. If proper methods be adopted, India, with her innumerable rivers, streams, and tanks, as well as her extensive sea-board, ought to have a plentiful supply of fish.

In India, as we have seen, the land is split up into millions of small holdings. Agriculture is consequently practised on a small scale. Cultivation is almost always extensive. It is practised in the different provinces with an infinite variety of detail, according to the varying conditions. The Deltaic swamps of Bengal and Burma, the dry uplands of the Carnatic, the black-soil plains of the Deccan, the strong clays of the Punjab, and the deserts of Sind and Rajputana require separate modes of cultivation. The Indian peasant is

¹ The Government have enacted special laws for the preservation of forests, and they maintain a large staff of officers, both European and Indian, for forest management.

unscientific,
but not
inefficient.

Agriculturist
assiduous,
possesses
inherited
experience, but
is poor.

ignorant, and consequently the method of cultivation is unscientific; but practice and the inherited experience of generations have taught him the value of a rotation of crops and the use of fallows. He knows what crops are suitable to a particular soil. He sows and reaps at the right times. He is assiduous and does his best to get the largest return from his field. But his poverty often prevents him from properly manuring his land,¹ or selecting good seeds, or leaving his land fallow for a season. The implements used are of the simplest kind, but they are well adapted to the needs of the peasant.

Chief want—
capital.

Considering the circumstances of the peasant and the conditions of Indian agriculture, it may be said that, on the whole, the peasant is efficient. What the peasant primarily wants is more capital. With greater capital he would be able to spend more on manures, he would purchase better cattle and feed them more properly, and he would be able to supply his land with the required amount of water. The peasant also lacks a knowledge of improved methods of cultivation, and, to remedy this defect, agricultural education is necessary.

Improvement
of agriculture.

As agriculture is the chief industry of the country, and as the success of other industries depends on the supply of raw materials, the improvement of agriculture ought to engage the serious attention of every thinker in India. Various

¹ Social prejudices also sometimes stand in the way of the utilisation of certain kinds of cheap manure, which are thrown away to the great detriment of the soil.

suggestions have been made from time to time for the improvement of Indian agriculture. Some of these suggestions, however, have come from men who have not taken fully into consideration the circumstances of the cultivator and the conditions under which he has to work. The scientific method of cultivation involves large tracts of land, deep ploughing, perfect irrigation, good manuring and proper rotation of crops; and thus necessitates the expenditure of a large amount of capital which is beyond the means of the ordinary cultivator. There is a good deal of truth in the remark made long ago by an Indian daily newspaper, which said, "The native cultivators have nothing to learn so far as unscientific agriculture is concerned, and the adoption of scientific agriculture is wholly beyond his means."

Suggestions must be practical.

There is, however, much room for improvement even under the present conditions; and it is believed that the introduction of improvements into the existing methods of cultivation will increase the yield of fields by 15 or 20 per cent.¹ Co-operation among farmers can go a long way towards solving some of the problems and removing many of their difficulties. For instance, the farmers may combine to purchase improved implements for their common use, or they may join in constructing wells

Much room for improvement under present conditions.

¹ Mr. F. Smith, Dy. Director of Agriculture, Bengal, believes that the average yields per acre of all crops except jute can be doubled, while that of jute can be increased 70 per cent. He thinks that by education and the application of science to agriculture, the annual national income can easily be doubled.

for supplying water to their fields, or they may leave common pasture-land for the grazing of cattle. The Co-operative Credit Societies, if properly worked, are likely to be of immense help to the agriculturists.

Scientific experiments, carried out with a full regard to the circumstances of the country, will prove useful in many ways. Agricultural fairs and shows may be of much use to cultivators by demonstrating the advantages of improved implements and of good seeds and suitable manure.

The peasant
not hopelessly
conservative.

Some agricultural experts despair of the improvement of agriculture because they have taken the Indian peasant to be "a living emblem of inertia." But, in reality, the peasant is not so conservative as he is often supposed to be.¹ He is not quite unwilling to adopt improved methods, but these must be shown to be capable of giving better results. In order to induce the peasant to adopt improved methods, the experts must prove, not on paper, but by actual farming, that these are paying and are suitable to the conditions under which the cultivator lives.² As Mr. D. L. Roy observes, "The

¹ Vide Dr. Voelcker, *Improvement of Indian Agriculture*.

² The scientific system of agriculture is feasible only if undertaken by capitalist-farmers who can afford to commence farming on a large scale. For the scientific method of cultivation, at least a hundred acres (300 bighas) of land is necessary. The advantages of scientific agriculture are:—the provision of sufficient water, good manure, selection of good seeds, greater division of labour, the opportunity of raising particular crops according to the suitability of each plot of land, greater rotation of crops, and larger scope for experiments. With these

neatness of the costly and heavy Sibpur plough, the scientific value of artificial manure, the sleek appearance of well-fed cattle have attractions of their own for the amateur; but to the practical agriculturist, the balance of profit is of more importance and far more tempting."¹ "The introduction of Cambodia cotton into the Madras Presidency," says the Director of Agriculture, Madras, "is perhaps one of the most striking instances in India of how readily the ryot will take up a new cultivation, if once he is satisfied that it pays him to do so."²

In 1889 the Government appointed Dr. Voelcker to make enquiries into the condition of Indian agriculture, and to suggest possible improvements. He submitted his excellent report in 1893. In his report he recommended the adoption of certain measures, which may be summarised as follows: (1) the spread of general and agricultural education, and the preparation of suitable text-books in the vernaculars for the purpose; (2) the extension of canals and other means of irrigation to tracts where

Dr. Voelcker's
suggestions.

advantages may be compared those possessed by the farmer who works on his own account, viz., the intense interest taken by the cultivator in his work, the spirit of independence and of self-reliance and other moral qualities which the system fosters, as also the social influence which it confers on the possessor of land. It should, further, be considered in this connection whether or not small-scale cultivation is well-adapted to the land-tenure system and the social environment of the country.

¹ D. L. Roy, *Crops of Bengal*, p. 8.

² *Agricultural Journal of India*, vol. iv. pt. 4.

they are required ; (3) the more energetic working and popularising of the system of *taccavi* advances for well-digging and similar purposes ; (4) the institution by Agricultural Departments of organised enquiry to ascertain the irrigation requirements of each district ; (5) the creation of reserves of wood and fodder (called "Fuel and Fodder Reserves"), the planting of trees along canal banks and railway lines, and the further encouragement of arboriculture ; (6) the continuation and extension of experimental research aided by chemical science in reference to new crops, methods of cultivation, manures, etc. ; (7) the trial of new implements at Government experimental farms, and the distribution of approved implements among the cultivators ; (8) the distribution of seed from agricultural farms ; (9) the location of stud bulls at Government farms, and the encouragement of improved breeding of cattle.¹

**Irrigation and
dry-farming.**

The extension of the different modes of irrigation and the adoption of such dry-farming methods as may be found successful by experiment, are likely to increase the area under cultivation and thus add to the agricultural wealth of the country. A recent bulletin of the United States Department of Agriculture says that dry-farming consists not only in raising crops in regions of moderate but uncertain rainfall by collecting and preserving all the moisture obtainable, but also in raising certain kinds of crops in districts where the rainfall is altogether deficient.

¹ Vide Dr. Voelcker, *Improvement of Indian Agriculture*.

Undoubtedly, agricultural education¹ is essential for the improvement of the condition of the agriculturist. But agricultural education must be preceded by general education. The Government imparts instruction in methods of agriculture at Sibpur, and several other centres. Recently, Agricultural Colleges have been started at Pusa and Sabour Behar. The kind of education, however, which is at present imparted in the Government schools hardly leads to any practical results. As Mr. N. G. Mukherji, late lecturer at the Sibpur College, observed, "Neither the farm-labourer nor the farmer, nor the landed proprietor care, as a rule, for agricultural education." These schools are meant for educated men—graduates of the University, but it is a pity that the passed students of these schools do not start farming on their own account,² but try to secure service under the Government. To be really useful, agricultural training should consist of two parts, a higher and a lower, the first for turning out experts and organisers, and the second for assisting actual cultivators in their work.

Agricultural
education.

We have briefly described the chief features of the agricultural industry, and suggested modes of improvement. For agriculture India possesses great

¹ Germany has established agricultural colleges and schools all over the Empire, and as the result of agricultural education, has achieved marvellous results in improving agriculture.

² Mr. F. Smith, in a recent lecture delivered in Calcutta, expressed the opinion that a middle-class young man working on 100 acres of land could earn Rs. 250 a month.

natural advantages, and when they are fully utilised, they will surely add much to the wealth of the country. Agriculture is important not only in itself, but on it are based all possibilities of the development of manufacturing industries.

2. MINING.

Mining.

Akin to agriculture is the mining industry, for both of these are concerned with the raising of raw materials from the earth. As we have already seen, India is very rich in minerals almost of every kind;¹ and there is hardly anything which she cannot produce if only capital, enterprise, and technical knowledge are forthcoming.

Revival of
mining.

The decay of the ancient metallurgical and chemical industries injuriously affected mining in India; it resulted in the almost exclusive development of those minerals which can be consumed by direct processes on the spot, or which, on account of their abundance and cheapness, are suitable for export in the raw state. Nevertheless, during the past few years conditions have been rapidly ripening in India for the successful revival along European lines of industries dependent on the ores and minerals. "There is now," says Sir T. Holland, "a prospect of undertaking the production of iron and steel which form the largest section of the bill for imported metals. Copper, lead, and some of the

¹ This is the view held by Sir Thomas Holland, lately Director of the Geological Survey of India. *Vide* his paper read before the Industrial Conference, 1905.

inorganic chemicals are also attracting the attention of investors, and active prospecting operations are now being undertaken."

During the last decade there has been a marked increase in the output of Indian minerals. The total value of the mineral productions of India is about $12\frac{1}{2}$ crores.¹ Coal is the most important of these products, the value of its production being over $5\frac{1}{2}$ crores. Indian coal has now almost completely displaced imported fuel. The coal workings in India are still very shallow, only one shaft having been sunk to a greater depth than 800 feet. Coal is very unevenly distributed over India, about 95 per cent. of the produce being obtained from one belt known as the Gondwana system, and the remaining 5 per cent. from the rest of India. The Jherria coal-field in Chota Nagpur provides over half the total output.

Total mineral
production.

Coal.

Coal output is the dominating factor in competitive industry, and its importance will be more and more realised as the country advances as a manufacturing producer. "The possession of native coal," says Mr. L. G. C. Money, "means the possession of power. It means that the nation is gifted by nature with magnificent stores of energy which can be liberated to work the wonderful machines which men have invented—which can be

¹ The figures given here are for the year 1913 (*Statistical Abstract for British India*, and the *Moral and Material Condition of India*, 1914). In 1914, the output of coal in the different provinces of India was: Bengal, $4\frac{1}{2}$ million tons; Behar, $10\frac{3}{4}$; Punjab, '05; Assam, '30; Beluchistan, '04; Central Provinces, '24.

expressed at will either as light or as heat or as electricity.”¹

Gold.² Gold² is produced of the value of about 3½ crores of rupees. The attention of European

¹ The main cause of British industrial progress is the amount of its coal output (264 million tons in 1910). But this also explains the main cause of its *relative* industrial decline. Since 1875, the coal output of the United Kingdom has increased from 133 million to 264 million tons (1910), whereas the world's output has increased during the same period from 280 millions to 1150 million tons. Thus the United Kingdom's output as percentage of the whole was 48 per cent. in 1875 and 23 per cent. in 1910 (*vide* L. G. C. Money, *Things that Matter*, p. 287).

² The following figures, taken from the *Times*, April 25, 1911, show the details of gold-mining during the years 1908, 1909, and 1910.

Name of Company.	Capital.	Output in ounces for the last three years.	Dividends p.c.
Mysore - - -	£305,000	{ 218,042 230,391 230,577	115 115 115
Nundydroog - -	£283,000	{ 77,946 83,965 86,110	30½ 40 41½
Ooregum - - -	£450,722	{ 86,623 89,789 91,791	22½ 30 32½
Champion Reef -	£260,000	{ 119,736 112,132 113,540	20 20 23½
Balaghat - - -	£308,000	{ 27,538 20,852 17,009	Nil Nil Nil

In 1914 the Nundydroog company paid a dividend of 35 per cent., and the chairman, in moving the adoption of the report, said that the company had already distributed £2,000,000 among its shareholders. The Ooregum Co. paid a dividend of 45 per cent. on preference shares and 35 per cent. on ordinary shares.

prospectors was originally directed to the Kolar field area by numerous indigenous workings of unknown age, and since operations commenced on a large scale some twenty-five years ago, the gold extracted has reached a value of about 60 crores.¹ Complete returns of alluvial gold-washing which is practised in many places are not available.²

Petroleum comes third, the value of produce Petroleum. being slightly more than $1\frac{1}{2}$ crores of rupees. More rapid progress has been made during the past few years in developing the petroleum resources of India than most of the other mineral products. Since the introduction of European drills into the fields some thirty years ago the production has rapidly risen.

Of manganese India probably turns out a larger Manganese. quantity of high-grade ore than any other country. The value of the annual output is over $1\frac{3}{4}$ crores of rupees. Only the high-grade ores are now worked, but with the growth of the steel industry, it will perhaps be profitable to work the comparatively inferior ores. There being no smelting plant in the producing centres, the ore is exported in bulk exactly as mined.

India has for many years been the leading Mica. producer of mica, turning out more than half the world's supply. The value of annual production is about 50 lakhs.

¹ Vide Sir T. Holland's *Sketch of the Mineral Resources of India*.

² Dredging operations on a pretty large scale on the river Irawady have resulted in the recovery of considerable quantities of gold every year.

Other
minerals.

The other important minerals produced are salt, jadestone, rubies, lead, tin, and monazite.

Iron.

The production of iron ore has now considerably increased owing to the activity of the Tata Iron and Steel Company.

The number of mines of all kinds coming under the Indian Mines Act in 1912 was 1147, of which 527 were coal mines (including 329 in Bihar and Orissa), 473 mica mines (including 395 in Bihar and Orissa), and 47 manganese mines. The mines gave employment to an average daily number of 164,302 persons (as against 146,336 in 1911), of whom 101,971 were men, 56,507 women, and 5824 children; 103,980 worked underground. The labour material is very unformed, possesses little skill, and requires constant supervision.¹

Mining mainly
in European
hands.

Most of the mining industries are in the hands of Europeans. But it is no use complaining against foreigners. What is needed is to find out the cause and to apply the remedy. The real reason for this deplorable state of affairs is to be found in the want of indigenous capital and enterprise, and in the fact that very little technical and scientific knowledge is available in the country. It is to be hoped that in future capitalists will invest their money in mining industries, and that the State will offer proper facilities for the training of young men in mining.²

¹ *Moral and Material Condition of India*, 1914.

² Sir V. Thackersey, in his presidential address at the Industrial Conference, 1906, earnestly pleaded for the training of young men in mining, so that they may help the development of mineral industries in the country.

CHAPTER VII

PRODUCTION—(*Concluded*)

MANUFACTURES

At the present moment India is very backward in the matter of manufacturing industries. But there was a time when she was one of the chief manufacturing countries of the world. Even as late as the eighteenth century, she was on a par with Europe in industrial matters, and her manufactures found a ready market in many foreign countries. Until recent years, Indian industries were always worked by hand labour. The artisans inherited from their ancestors or acquired by experience a dexterity and skill and delicacy of touch which was not surpassed by artisans of any other country. Not only did they supply the people with the articles of necessity, but they turned out works of art of great excellence.

Manufactures
in ancient and
mediaeval
India.

The metal industries, and the cotton fabrics in particular, attained to considerable magnitude in many parts of the country. An able writer says: "In manufacture the Hindus attained to a marvellous perfection at a very early period, and the

Their
excellence.

courts of Imperial Rome glittered with gold and silver brocades of Delhi. The muslins of Dacca were famous, ages ago, throughout the civilised world. Textile fabrics of inimitable fineness, tapestry glittering with gems, rich embroideries and brocades, carpets wonderful for the exquisite harmony of colour, enamel of the most brilliant hue, inlaid wares that require high magnifying power to reveal their minuteness, furniture most elaborately carved, swords of curious forms and excellent temper are among the objects that prove the perfection of art in India."¹ In the words of Sir William Hunter, "the industrial genius of her inhabitants, even more than her natural wealth and her extensive seaboard, distinguished her from other Asiatic lands." The handicrafts were very often practised on a fairly large scale, and they gave rise to big and wealthy towns.

Causes of their
decay.

In the latter part of the eighteenth century, the industrial revolution began in Europe, and the older methods of industry were completely superseded by new ones. By the adoption of methods

¹ So also M. Martin in his *Indian Empire* says : "The gossamer muslins of Dacca, beautiful shawls of Cashmere and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesars, when the barbarians of Britain were painted savages. Embossed and filigree metals, elaborate carvings in ivory, ebony and sandal-wood ; brilliant dyed chintzes, diamonds, uniquely set pearls and precious stones, embroidered velvets and carpets, highly wrought steel, excellent porcelain, and perfect naval architecture—were for ages the admiration of civilised mankind, and before London was known in history, India was the richest trading mart of the earth."

which saved labour and materials, and by the utilisation of by-products, goods began to be turned out at a much cheaper cost. Machinery supplanted hand labour, large amounts of capital began to be invested in every industry, production on a small scale gave place to large-scale production, and a better organisation was introduced. This great change led to a great increase in productive power. Indians, however, remained unaffected by the change. The Indian artisans continued to work as their forefathers had worked—without capital, without the assistance of machinery, without organisation. Each man went on working by and for himself as before; the appliances he used were the same as had been in common use before the manufacturing era began; there was no co-operation among the artisans; and division of labour was practised only to a limited extent. No attempt was made to render the Indian industries more efficient by reorganising them on modern lines. To these defects were added the efforts of the East India Company and of the British Government at home to ruin the indigenous industries of the country. For some time the industries struggled for life, but were ultimately killed or crippled by competition with foreign manufactures, aided by state action. The result was that by the middle of the last century India found herself reduced to the position of an almost exclusively agricultural country.¹ 2

¹ Sir William Hunter says: "Many circumstances conspired to injure the Indian industry in the last century. England excluded these fabrics not by fiscal duties but by absolute pro-

Tendency
towards im-
provement.

All industrial activity and enterprise remained paralysed for a long time. In recent years, however, there has become discernible a tendency to better

hibition. A change of fashion in the West Indies on the abolition of slavery took away the best customer left to India. Then came the cheapness of production in Lancashire, due to improvements in machinery. Lastly, the high price of raw cotton during the American war, however beneficial to the cultivators, fairly broke down the local weaving trade in the cotton-growing tracts. ... And whilst on the one hand the downfall of the native courts deprived the skilled workman of his chief market, on the other hand the English capitalist has enlisted in his service forces of nature against which the village artisans in vain try to compete. The tide of circumstance has compelled the Indian weaver to exchange his loom for the plough, and has crushed many of the minor handicrafts."

That eminent historian, H. H. Wilson, says: "It is also a melancholy instance of the wrong done to India by the country on which she had become dependent. It was stated in evidence that the cotton and silk goods of India up to this period could be sold for a profit in the British market at a price from fifty to sixty per cent. lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 or 80 per cent. on their value, or by positive prohibition. Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the powers of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she would have retaliated; would have imposed preventive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger; British goods were forced upon her without paying any duty; and the foreign manufacturer employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms" (*History of India*, vol. i. pp. 538, 539, note).

things. But the situation is still full of difficulties. Modern industry, to be successful, must be undertaken by the educated Indian. But he lacks the practical commonsense of the business-man, and his education has not fitted him for the discharge of the multifarious duties of the modern entrepreneur. His small capital is wholly inadequate for the starting of business on a proper scale, and there are few banks, if any, which would be ready to lend him money. He cannot command the services of men who possess the requisite knowledge and technical skill. The conditions are so discouraging that he often gives up his idea in despair, or, if he is of a sanguine temperament, goes light-heartedly into foolish schemes which can only end in failure.

Difficulties
still great,

In spite of the various difficulties in the way of an industrial regeneration, some advance has actually been made during the last two decades. People have now begun to realise the advantages of co-operation and combination. Ignorance and apathy are gradually disappearing before a new energy and a new spirit of enterprise. Educated India is taking more and more to technical and industrial education to obtain a mastery over nature. Capital is gradually overcoming its proverbial shyness. Steam and electricity are superseding hand-power.¹ Attempts

but are being
overcome in
part.

¹ The Tata Hydro-Electric Works, opened in last February, are expected to be of the highest economic importance. Power by the enormous volume of water is transmitted from the Ghats to the city of Bombay. This power will be of great benefit to the cotton and other industries. One noteworthy feature of the

are being made to revive old industries and new ones are cropping up in every direction.

The chief industries :

A brief review of the more important of the industries will give an idea of the present industrial position of the country. The industries are usually classified under the following heads: (1) textile fabrics and dress; (2) food, drink, and stimulants; (3) metals, metallic manufactures, precious stones, and minerals; (4) glass-, earthen-, and stone-ware; (5) building requisites; (6) light, fuel, and forage; (7) vehicles and vessels; (8) wood, cane, leaves, etc.; (9) drugs, dyes, gums, and chemicals; (10) leather, horns, etc.; and (11) articles of supplementary requirements.

Weaving.

Weaving is the most important industry of the country next to agriculture. Hand-loom weaving reached a perfection in the production of fine cloths; the Indian muslins were, in fact, fabrics of unrivalled delicacy and beauty. The preliminary processes of ginning, cleaning, pressing, and spinning are also important industries by themselves. Formerly, cotton used to be hand-ginned, mostly by women. But now hand-ginning has been superseded to some extent by power-gins. Cleaning and pressing are very often combined with ginning in the same factories. Spinning of thread was, and to some extent

Ginning,
Cleaning,
Pressing, and
Spinning.

scheme is that it has been financed entirely by Indian capital and executed under an Indian Board of Directors. The electricity supplied by the Cauvery Falls Power Station has been a considerable factor in the success of the Kolar Gold Field. There is no doubt that more enterprises of this nature will be undertaken in the near future.

still is, a domestic industry—the chief occupation of women. The indigenous method is slow but cheap. Mr. E. B. Havell thinks that this method cannot be materially improved, and recommends the establishment of more spinning mills. Hand-loom weaving has suffered greatly in competition with Manchester, and hundreds of thousands of workers have been thrown out of work. The weavers of Bengal, whose fame at one time extended over Europe, have suffered most from foreign competition.

Effect of
foreign
competition.

Weaving mills have been established in various parts of the country, but a large proportion of the population is still dependent on hand-loom weaving. Hand-loom weaving, however, is more expensive than power-loom weaving. As Mr. A. C. Chatterjee¹ points out, the comparative cost of weaving a pound of cloth by power-loom in England is 14 pies, by power-loom in India 17 pies, and by efficient hand-loom in India 21 pies. Experts, however, think that there are several factors in favour of the hand-loom, which may be summed up as follows:

- 1 The amount of fixed capital needed is small; the
- 2 coarser hand-loom articles are stronger and more
- 3 durable than those produced by the power-loom;
- 4 artistic and richly-ornamented articles can be produced only by the hand-loom; the hand-weaver possesses considerable advantage in his inherited skill; he has a low standard of living and combines

Advantages of
the hand-loom.

¹ For an account of indigenous industries, *vide* A. C. Chatterjee, *Notes on the Industries of the United Provinces*, and Mr. Latifi, *The Industrial Punjab*.

5 the industry with other occupations, notably agri-
 6 culture; women who, on account of the social
 7 customs and the system of seclusion, are generally
 debarred from working in the factories, can find
 a place in the industry; the hand-worker who
 works on his own account works harder and takes
 greater interest in his work than the factory
 labourer.

Views of Mr.
 Havell and Mr.
 Chatterton.

The fact that hand-loom weaving has not entirely
 died out has led many people to hope that the
 industry may yet be saved. Mr. E. B. Havell and Mr.
 A. Chatterton think that, by the adoption of improved
 methods, the hand-loom may successfully compete
 with the power-loom. This belief, however, is not
 shared by other experts, who find in the establish-
 ment of weaving mills the only means of meeting
 European competition.

Suggestions for
 improvement.

Among the means of improving the hand-loom
 industry which have been suggested from time to
 time the following are worthy of mention: (a) the
 spread of elementary education so as to raise the
 intellectual standard of the community; (b) the use
 of efficient hand-loom; (c) improvements in pre-
 liminary processes; (d) co-operation among weavers;
 (e) demonstration to the weavers of successful
 experiments; (f) cheap credit; (g) advances for
 improved appliances; (h) better touch of the weavers
 with the customers so that they may know the
 demand of the market; (i) the establishment of
 small hand-loom factories.

Weaving mills.

During the last thirty-two years there has been
 a great development of the mill-weaving industry,

especially in Bombay and the Central Provinces. In 1881, there were 55 cotton mills; in 1912, the number rose to 235, and they gave employment to 217,279 persons. The produce of these mills is now able to hold its own against foreign produce in quality; but the quantity locally produced falls far short of what is needed to clothe the entire population, and India has to import more than 66 crores of rupees worth of cotton goods from abroad. The suggested abolition of the excise duty on cotton manufactures, aided by the *Swadeshi* sentiment, is likely to lead to a further growth of the weaving industry.

The process of weaving silk is the same as that of cotton, but it requires greater care and hence the use of a specialised kind of machinery. The greater part of the silk produce is done by the hand-loom. The preliminary processes are mainly cottage industries and practised as subsidiary to other occupations. Their great advantage is that they can offer employment to women of the middle classes. A few silk factories have been established in Calcutta and Bombay. Silk-weaving.

Allied to weaving is knitting. This industry has received a great impetus from the new spirit. It can give employment to a large number of women who may be engaged to work with small machines in their own homes for piece-wages. Other cotton industries are those of rope-making, carpet-making, tent-making, etc. Cotton carpets or *daris* form the subject of an important industry in the United Provinces. Artistic work on dress was at one time Knitting.

very much in demand, but is now in a declining state.

Woollen
industry.

The indigenous woollen industry of Northern India has suffered much in competition with cheap German goods. Attempts have been made during the last fifteen years or so to develop the industry on modern lines. In the Punjab and the United Provinces, a number of woollen mills have been started, those at Dhariwal and Cawnpore being the most important among them. Woollen carpets of good quality are made in the United Provinces. The scarcity of raw material of a good quality is an obstacle to the growth of the industry.

Jute.

Jute supplies the raw material for the manufacture of gunny bags and things of the sort. In Bengal, there has been an immense development of the industry during the last half a century. Mills have been established on both banks of the Bhagirathi, and also in several parts of East Bengal. This industry is entirely in the hands of Europeans.

Paper.

The manufacture of paper was at one time an extensive hand industry, but now it has almost died out. Paper mills are now working at several towns; but they can hardly be said to be in a flourishing condition.¹

*Punjab
mill
some steam with
grated material*

¹ Mr. W. Raitt, Cellulose Expert attached to the Forest Research Institute, Dehra Dum, is of opinion that the waste grasses of Northern and Central India are likely to be of great value in cellulose or pulp-making. He also thinks that pulp made from bamboo will shortly become a staple article for the production of paper in India.

Dyeing was at one time a very thriving industry, but the Indian dyes, though better and more lasting, have to a large extent been replaced by cheap aniline dyes.¹ Dyes are manufactured from various stuffs, such as indigo, catechu, al, safflower, lac, and turmeric. The manufacture of coal-tar dyes has been begun in some parts of the country, but nowhere on a fairly large scale.

The manufacturing industries connected with food-grains are rice-hulling, wheat-milling, bakeries, and biscuit manufactures. Flour mills have of late been started in many towns, but in Northern India milling is still done mainly by hand. Small machines are now extensively used for rice-hulling, and handy flour-mills are also coming into general use. In Bengal and the Punjab, several biscuit factories have been started.

Sugar used to be one of the important industries of India, but it can hardly be said to be now in a flourishing state. Refined Indian sugar fails to compete successfully with imported sugar because of the wasteful methods employed. With the adoption of improvements in the method of pressing the cane, of boiling down the juice, and of sugar refining, together with an improvement in the production of the raw material, the industry is likely to thrive once more. The successful experiments

¹ Just at the present moment the British Government has sanctioned the expenditure of a large sum of money for the revival of the dyeing industry in England. And there is no reason why the Indian Government should not follow this example.

Rice-hulling,
Wheat-
milling, etc.

Sugar.
Anand
S. M. S. S. S. S. S.
S. S. S. S. S.
S. S. S. S. S.

made by Mr. Hadi, Mr. H. D. Chatterji and others ought to prove helpful to the revival of the industry. Several small sugar factories have been started in the country. A large factory has been established in Behar with European capital and under European supervision.

Leather

Leather industry is progressing in India at the present moment.¹ Chrome-tanning, which was first begun in Madras only a few years ago, has now been adopted in almost every part of the country. Tanneries have been established all over the country, the most important centres of manufacture being Agra, Cawnpore, Calcutta, Bombay, Cuttack, and Madras.

Oils and oil-seeds.

Oils and oil-seeds form the subjects of useful industries throughout the country, but there is ample room yet for their further expansion. The cotton-seed industry has materially helped to make the United States one of the foremost among the industrial nations of the world. The export of cotton seeds involves an immense loss to the country; and the development of industries in connection with them is sure to be useful both in a direct and in an indirect way.

Metal industries.

In the metal industries many of the local handicrafts attain to considerable magnitude. "The high quality of native-made iron," says Sir Thomas Holland, "the early anticipation of the processes now employed in Europe for the manufacture of

¹ The common belief that leather industries were not practised in ancient India is wrong, for we find the description of a large variety of skins in Kautilya's *Arthashastra*.

steels, and the artistic products in copper and brass gave India at one time a prominent position in the metallurgical world."¹ Copper and brass vessels which are necessary articles in every household are even now manufactured in every district. The chief centres of manufacture are, however, Murshidabad, Srinagar, Benares, Mirzapur, Moradabad, and Mysore. The artistic and jewellery works of Multan, Cuttack, Madura, Poona, and other cities are famous all over India. Business in these arts is usually done on a small scale by blacksmiths and silversmiths, of whom one or more are found in every town and village. Cutleries have been in existence for some years in different parts of the country. The lock-works of Calcutta, Aligarh, and Hathras, have been doing very good business. The manufacture of steel trunks is becoming a very useful industry. The aluminium industry of Madras has become important during the last twenty years.

The wasteful indigenous process of smelting Iron. iron in small furnaces is a great drawback to the growth of the iron industry. Several iron and steel factories have, however, been recently established. The Tata Iron and Steel Works have started work on a very large scale, and are turning out things of a good quality. The railway

¹ Sir Thomas Holland rightly says: "In ancient times the people of India seem to have merited their fame for metallurgical skill" (*vide his Sketch of the Mineral Resources of India*). There is abundant evidence to show that steel was in extensive use in India several centuries before the Christian era.

companies have their own workshops, some of which are of considerable size.

Glass.

The manufacture of glass by the indigenous method has existed from very early times. Bangles are made of crude glass obtained from *reh* or saline deposits on barren land. Flasks, inkpots, and such other small things are blown from crude glass. Glass factories were a few years ago started in several places, some of which have had, however, to be closed. The factories in Upper and Western India have to work under one great disadvantage, namely, that coal for the furnace has to be brought from a great distance. The other difficulties which the glass industry has to contend with are: want of skilled labour, inexperience of the requirements of the Indian climate regarding furnaces, and difficulty of glass blowing in hot weather.

Carpentry.

Woodwork and carpentry are still in the main hand industries. Saw mills have, however, been established in many parts of the country.

Chemical industries.

The once flourishing chemical industries of India have been almost stamped out by the foreign manufacturer. The foreign chemical product has obtained a supremacy in India, however, not merely because it is cheaper, but mainly because it can be depended on for uniformity of quality. Several factories—the most notable among them being the Bengal Chemical Works of Calcutta—have during the last few years been doing very good work in the way of reviving the chemical industries of India.

Perfumes, etc.

Perfumes and essential oils are important industries in the United Provinces. Ghazipur, Jaunpur,

and Kanauj are famous for the produce of *itr* and other perfumes, rose-water, and various kinds of perfumed oils. A few perfumery factories on western models have been established in Calcutta, Bombay, and some other cities. Soap is manufactured by the indigenous process, and also in factories on modern lines. The soap factories of Calcutta and Meerut do business on a fairly large scale.

The tobacco industry is very extensive, and is growing in magnitude. A higher rate of duty on imported products is likely to give a fillip to the indigenous industry. Tobacco.

Dairy-farming is more akin to agriculture than to manufacture, and can be profitably practised in association with the former. It ought to be a flourishing industry in India, but unfortunately is now in a languid state. The reason is to be found in the uneconomical method of work, the neglect of hygiene and breed of cattle, and the want of pasture-lands. The supply of milk and its products, such as butter, *ghee*, *matha*, etc., has greatly contracted. The best efforts of the people should be directed towards an industry which would supply them with the best and most nutritious kind of food. For this purpose, the improvement of cattle and an increase of grazing fields are absolutely essential.¹ Dairy-farming.

¹ In Canada, dairy-farming, with the allied industries, is fostered by Government by the employment of experts and the maintenance of dairy schools. The Government of India also might well do something in this matter.

Mills and
factories.

The total number of factories worked by mechanical power was 2563 in 1911. A classified list of the more important among them is given below :¹

Cotton mills,	-	-	-	-	-	235
Cotton presses,	-	-	-	-	-	1166
Jute mills,	-	-	-	-	-	60
Jute presses,	-	-	-	-	-	115
Woollen mills,	-	-	-	-	-	4
Paper	„	-	-	-	-	8
Arms and ammunition	factories					
(Government),	-	-	-	-	-	16
Breweries,	-	-	-	-	-	22
Dockyards,	-	-	-	-	-	23
Indigo factories,	-	-	-	-	-	49
Iron and brass foundries,	-	-	-	-	-	85
Lac factories,	-	-	-	-	-	34
Petroleum refineries,	-	-	-	-	-	7
Printing presses,	-	-	-	-	-	60
Railway workshops and factories,	-	-	-	-	-	59
Rice mills,	-	-	-	-	-	219
Flour	„	-	-	-	-	38
Saw	„	-	-	-	-	102
Silk filatures and mills,	-	-	-	-	-	63
Sugar factories,	-	-	-	-	-	25
Tile	„	-	-	-	-	28

The space at our command does not permit us to give a full account of all the industries of India, and

¹ “This does not include factories not worked by mechanical power. Of the 1166 factories for the ginning, cleaning, and pressing of cotton, there were 289 in Berar, 380 in Bombay, 135 in the Punjab, and 133 in the United Provinces. In Bombay about 194,000 operatives were employed in different branches of the cotton industry. In Madras and the Central Provinces and Berar, as in Bombay, cotton weaving and spinning are the principal industries. In Bengal there is an increasing number

we have to content ourselves with a brief and rapid survey of the most important of these. It shows that some advance has been made in the direction of an industrial regeneration.

But the value of the achievement is often exaggerated. Those who look complacently on the enormous increase in the trade returns, forget that the greater part of the industrial development of the country has been due to foreign capital and enterprise. The mining industries, the factory industries, and the more important of the industrial arts are mainly in the hands of Europeans. The profits accruing from these industries, instead of accumulating in the country, are remitted abroad so that, in the words of Mr. A. Chatterton, a high Government

Value of
achievement
often
exaggerated.

of jute presses. Silk filatures are found chiefly in Bengal and indigo and lac factories in Bihar and Orissa. Flour mills are most numerous in the Punjab and sugar factories in the United Provinces and Bihar. Rice mills and saw mills are most numerous in Burma, rice and teak being the two principal products of the province. They are mainly in European hands and are the only large industries in Burma organised and worked by western methods. Printing presses are numerous in Bombay and Madras. Iron and brass foundries (including engineering workshops) number 30 in Bengal and 22 in Bombay. The Tata Iron and Steel Works in Chota Nagpur commenced work early in 1912, and have since been considerably expanded. Their pig-iron has found a market in Japan and some has been bought by America. There were 119 factories belonging to the State and to local bodies. Among these were 19 printing presses, 23 railway workshops, 12 canal foundries and engineering workshops, and 17 military arsenals and factories. A marked feature in Madras and the United Provinces is the erection of many small power plants for purposes of agriculture and rural industries" (*Mental and Moral Condition of India*, 1914).

official, "the people of India benefit by the establishment of these prosperous undertakings only to the extent that a certain number earn wages in subordinate positions or by doing coolie work."¹ But it is no use fretting over the success of other people. The children of the soil neglected to utilise the vast resources of the country, and they have no right to complain of the exploitation of these by outsiders. Commercial development, like time and tide, does not wait for anybody.

Indian *vs.*
foreign capital.

This brings us to the much-debated question of Indian *versus* foreign capital. Much of the controversy to which the subject has given rise has been due to a want of clear thinking. On the one hand, it has been held that foreign capital must necessarily do harm to the country; on the other, it has been maintained that its effect is bound in all cases to be beneficial. Sir Vithaldas Damodar Thackersey, a great authority on the subject, and himself a very successful merchant, has attacked the question with great clearness of thought and force of expression. As Sir Vithaldas rightly observes, no country in the world can make much progress in industrial directions without plenty of capital. In India, the possibilities of industrial and commercial development are immense, but the amount of indigenous capital is comparatively small. India cannot, therefore, do without foreign capital. It will be a short-sighted policy to reject it on sentimental grounds. But it is necessary to form a clear con-

Sir V.
Thackersey's
view.

Foreign capital
not necessarily
harmful.

¹ A. Chatterton, *Notes on Industrial Work in India*, 1905.

ception of the limits within which the application of foreign capital is beneficial. The patriots of Japan have been eager to attract foreign capital to their country for purposes of industrial development. At the same time, they have not allowed the profits of industry to go out of the country. While, therefore, we should avail ourselves of foreign capital, whenever necessary, we ought to take care that we do not pay more for it than other nations. There are some enterprises which are necessary for the welfare of the country, but for which enough capital is not available within the country, and in such cases it is desirable to have resort to foreign capital. Railways are an instance of the right use of such capital. "But," says Sir Vithaldas, "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea, and the financing of our vast foreign trade by foreign banks, we come upon another and a less favourable aspect of the question of the investment of foreign capital.¹ It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports, after omitting Government transactions. It must be remembered that so much of this amount as represents merely the interest on borrowed capital

Limits of its
usefulness.

¹ The amount of British capital invested in India was estimated some time ago by the *Economist* at £470 millions—the largest investment of any single country in the world with the possible exception of the United States.

should not be regarded in the light of a drain from the country. It is in the huge profits of some investments that we find cause for complaint. In such cases, I cannot but think that it would be to the permanent good of the country to allow petroleum to remain underground and gold to rest in the bowels of the earth,¹ until the gradual regeneration of the country, which must come about under British rule, enables her own industrialists to raise them and get the profits of the industries. A country which maintains a population of thirty crores is not likely to let about one lakh of persons starve, and this is the number of wage-earners benefited by these industries. The price paid is much too great for the advantages accruing from them to the country."²

Sir T.
Holland's
opinion.

The same view has been held by Sir Thomas Holland, lately Director-General of Geological Survey to the Government of India. Speaking of the successful exploitation of the petroleum fields of Burma, he observed, "The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry, as in so many other enterprises of the kind, India will continue to pay an unnecessary and undesirable tax as long as those in the country who possess

¹ Sir V. Thackersey is undoubtedly right on this point, for the mines are not perennial sources of wealth like the soil; once exhausted, the mines will yield no more.

² Sir Vithaldas Damodar Thackersey's Presidential Address at the Indian Industrial Conference, 1906.

money will not risk their reserve fund in industrial purposes.”¹

The position may be summed up in the remark that Indians should utilise foreign capital in the development of the country, and pay the necessary price for it; but they should not allow the country to be exploited by foreign capital for its own gain. It may happen in many cases that, although the people of the country may not be able to provide all the capital required for a new industry, they may yet be able to supply a portion of it, and thus prevent some part of the profits of the industry from leaving the country. Sir Vitthaladas suggests in this connection that the legislature should make it obligatory on every industrial concern floated by foreign companies that the same opportunities should be given to Indian capitalists, and that the prospectus should be published simultaneously in both countries.

Summary.

Suggestion for State intervention.

Doubts have been expressed in certain quarters in regard to the possible success of the industrial movement. It is held by some that nature has destined India to be an agricultural, and not a manufacturing, country.² We find it difficult to understand what they really mean. It is true that she

Agriculture vs. Manufactures.

¹ Paper read by Sir T. Holland at the Indian Industrial Conference, 1905.

² Sir Patrick Playfair, on the occasion of the Annual Dinner of the London Chamber of Commerce, 1912, said: “India must be in the main an agricultural country raising crops in great quantities and of great value.” But Sir Theodore Morison replied: “The people of India were not content to be hewers of wood and drawers of water. They wished to take their part in manufacture.”

possesses certain exceptional facilities for agriculture which must always continue to be one of her most important industries. But that does not prove that she is naturally unfitted for the development of manufacturing industries. On the contrary, it shows that the natural advantages which she possesses as an agricultural country may be made to serve as aids to the growth of manufactures. And this is what has actually happened in the United States of America, whose agriculture has greatly helped the growth of manufacturing industries. The raw materials of every industry must come ultimately from the land. India has thus a start over other nations in so far as she can produce these raw materials at a comparatively cheap cost. Agriculture and manufactures, instead of being opposed in interest, may, in a large country like India, be really helpful and supplementary to each other.¹ The growth of manufactures will not necessarily mean the neglect of agriculture, but may, on the other hand, give a stimulus to its further development. Manufactures will flourish, not by withdrawing from agriculture the factors at present employed in its production, but by bringing into use uncultivated land, unemployed labour, and fresh capital. If the combination of agriculture and manufactures has been found possible in America,

The two supplementary to each other.

¹ Mr. Latifi writes thus in *The Industrial Punjab* (published for the Punjab Government): "In the Punjab, the two (i.e. agriculture and manufactures) are so intimately allied that permanent improvement in either is impossible unless they grow in close interdependence."

there is no reason why it will not succeed in India.

There are others who think that the circumstances which have favoured the growth of industries in European and American countries are not present in India. Let us examine the statement. As for the physical and moral characteristics of the people, they are not the natural monopoly of any nation or race. The superiority, in some particulars, lies with India; in others, the deficiencies may be overcome with the aid of science. Most of the qualities which make for success in industry are possessed by the people, but they are in a state of quiescence, and a little effort only is needed to make them active. India possesses a great advantage in the extremely low cost of living which prevails here. Three centuries ago, England industrially was very backward as compared with Holland and other enterprising nations of Europe, but to-day she is in the front rank of industrial nations. Germany has worked her way up to her present position in the course of less than half a century. There is thus hope for India yet. The present backwardness of India is due in part to the causes we have mentioned before and partly to its political environment, but it would not be quite unreasonable to expect a gradual modification of the political situation in the near future.

The possibilities of industrial development are indeed immense, and India, with her command of the raw materials, ought not only to supply her own needs but to furnish other countries with manufactured products. But to attain this end, an

Can manufactures succeed in India?

2.

3.

enormous increase of capital, the proper training of labour, and the adoption of improved methods of work will be necessary.

Large-scale vs.
small-scale
production.

From our review of the industrial situation it has become clear that the system of small-scale production still largely prevails in India, but in some of the industries production on a large scale has begun. The question whether the people of India should stick to their old system of handicrafts, or adopt, to the full extent, the new system of production by machinery and large capital, involves so many knotty points that it is not possible, or even desirable, to answer it in an off-hand way. It is undeniable that the efficiency of the productive agents is greater in many ways in large productions than in small ones.¹ But there also are some disadvantages

Merits and
defects of
large-scale
production.

¹ The advantages of large-scale production may be summarised as follows: (1) Better classification of labour according to its capacity; (2) the use of up-to-date and specialised machinery; (3) applied machinery can be so adjusted as to give full employment to the motive powers; (4) improvements can be more readily adopted; (5) inventions can be encouraged; (6) expert skill can be employed to a greater extent; (7) better selection of materials and of processes is possible; (8) purchases are made in large quantities and hence cheap; (9) sales are wholesale and hence not troublesome,—and often aggregate profits are higher, though the rate of profits may be low; (10) competent managers may be appointed for the control of the different departments; (11) the head of the firm is left free to deal with the larger questions, and to exercise a general superintendence; (12) bye-products are utilised, and even small things are not thrown away. The economic disadvantages are: (1) very great loss arises from a change in the demand for commodities; (2) the cost of superintendence is often large; (3) the interest of the paid managers is much less than that of the small proprietor; (4) large industries are not possible or profitable unless there is a sufficient demand.

even from the economic standpoint. It is, however, chiefly on moral and social grounds that objection is made to the system of large-scale production. Under that system men tend to become mere machines,—drudgery is destructive of all initiative and individuality. Again, the massing together of large numbers of people leads to physical and moral ill-health. Further, while the system of small-scale production enables a large number of people to live independently, the large-scale system raises a few, often at the expense of the many. Already we find a revulsion of feeling in the west among some of the thinkers. In countries where the capitalistic system has been pushed to an extreme, wide-spread destitution is found in the midst of the greatest abundance. "The tramp," says Mr. Henry George, "comes with the locomotive, and almshouses and prisons are as surely the marks of 'material progress' as are costly dwellings, rich warehouses, and magnificent churches."¹ He goes on to observe, "The association of poverty with progress is the great enigma of our times."² It is the central fact from which spring industrial, social, and political difficulties that perplex the world, and with which statesmanship and philanthropy grapple in vain."³

¹ Henry George, *Progress and Poverty*.

² The distribution of British incomes (in 1904) is thus calculated by Mr. L. G. C. Money: "rich, 1½ million—£585,000,000; comfortable, 3½ millions—£245,000,000; poor, 38 millions—£880,000,000."

³ Henry George, *Progress and Poverty*.

The industrial
revolution.

Opinions for
and against it.

This is undoubtedly a very complex problem. It is obvious that an industrial revolution has commenced in India. Whether such revolution is a desirable thing or not is a question on which opinion is hopelessly divided. There are some who not only welcome the revolution, but are even prepared to hasten it as much as they can; there are others who curse it and wish that it could be stopped. On the one hand, it is believed that the regeneration of the country will come through an industrial revolution; on the other, it is feared that the materialism of the west will destroy the spiritual ideals of the people and deaden the finer elements in their nature. One class of persons look confidently to the change for an economic millennium which will bring untold wealth and immense prosperity into the country; another class are appalled at the prospect of the extreme misery that is likely to come in the train of the revolution.

Element of
truth in each
view.

In the midst of such conflict of opinions, the economist would naturally find himself in a difficult position when called upon to give advice. On a careful consideration of the pros and cons of the matter, he would probably find that an element of truth underlies each of the two rival sets of opinions. He cannot deny that in the west enormous wealth stands side by side with abject poverty. He cannot forget the fact that the Industrial Revolution in England and other European countries was accompanied by great evils—"the tears of homeless women and the cries of hungry children." He would recognise that competitive

economics—under which there is a tendency for “the rich to grow richer and the poor to become poorer”—may be unfair in its behaviour towards the weak. He would be alive to the grave danger of the new system affecting the simple life of the people. At the same time, he would not overlook the simple facts, namely, that the industrial change has already made its appearance without any invitation from the people, that it is not in the power of anybody to prevent it, that it is bound to grow and expand against all odds, and that if the people of the country will not take advantage of it, others will. The only advice which the economist can, under such circumstances, offer to the people would be to ask them to take things as they are, instead of fighting against the inevitable, to profit by the experience of other nations, and to try and minimise the evils of an industrial change.¹ He would even

General
conclusion.

¹ During the last half-century serious efforts have been made in every civilised country to ameliorate the condition of the working classes. As a matter of fact, gigantic strides in well-being have been made during these years. In India it has been found necessary to pass Factory Acts for the protection of labourers. Up to 1st July, 1912, the law regulating factories in India was Act XI. of 1891. This Act applied with certain exceptions to all factories employing 50 hands and upwards and might be applied to factories employing 20 hands and upwards. For children from 9 (the minimum age) to 14, the maximum number of hours' work a day was 7, and for women 11, with 1½ hours' interval. A mid-day stoppage was compulsory, save where the work was in shifts. In 1911, another Act was passed which, besides making provisions for the safety and health of operatives in factories generally, provides that in textile factories no person shall be actually employed for more than 12 hours a

try to harmonise the old and the new, by taking the good from each and eschewing the evil.

Co-operation.

One of the chief means by which the evils of capitalism may be minimised in some degree is the adoption of the principle of co-operation.¹ Co-operation has produced great results in Europe and America, and there is no reason why it should not succeed in India.² Co-operation, however, presupposes the existence of certain qualities, such as business honesty, mutual confidence, and sense of duty; and they must be cultivated by those who wish to engage in business.

Small industries need not die out.

Even if the large-scale system be adopted in India, small industries need not die out. Some of the small industries may be made successful with the help of co-operation. Count Alex Karolyi has defined the aim of all co-operative work as "the attainment of greater social force through co-operation, greater economic knowledge through practical instruction, and a higher moral develop-

day, and no child for more than 6 hours, and that, save where there is an approved system of shifts (and subject to certain other exceptions), no person shall be employed before 5.30 a.m. or after 7 p.m. No woman in any factory may be employed for more than 11 hours.

¹ It is true that one of the chief features of the industrial revolution is the substitution of competition for the old regulations which used to control the production and distribution of wealth; but it is open to doubt whether competition is likely to be a permanent factor in industry in the future.

² For an account of the subject see Fay, *Co-operation at Home and Abroad*, and Holyoake, *Co-operative Movement To-day*. It must be admitted that co-operation has not yet succeeded to the same extent in production as in distribution.

ment through the need of being equitable.”¹ In one class of cases, the small manufacturers possess such inherent advantages that they can keep the cost of production at a very low figure, and can thus withstand the competition of large producers. Japan is still a country mainly of small industries, although she is fast developing the large-scale system. The success of such industries in Japan, however, is due partly to the efficiency of the workers and partly to the protection given to them by the state through the system of high tariffs. Sometimes, small industries may flourish side by side with large ones, either as meeting supplementary demands, or as producing goods complementary to those produced by the latter. Speaking of the cottage industries of Switzerland, Mr. Tressler, Director of Industries, Madras, says: “There fully one-third of the industrial population is engaged in cottage industry—chiefly watch and ribbon-making—and if not exactly amassing wealth, is at least maintaining itself in comfort. And all cottage workers are ‘linked’ with a manufacturer. The manufacturer turns out a very large quantity of finished material in his own mills, but a large quantity is also sent out. The yarn is warped and prepared ready for use, and the cottage worker has thus only to perform those operations in the process of manufacture that experience has shown most remunerative to him; the manufacturer’s labour-saving machine does the rest. The worker

¹ Quoted in the Presidential Address at the South-Bihar Co-operative Credit Conference, 1911.

thus obtains all the advantages of a division of labour, of expert assistance, and of a market as large and constant as a modern sales-organisation can make it."

Industrial
education.

In foreign
countries.

As economic efficiency is greatly enhanced by education, the subject deserves the earnest attention of all interested in the economic welfare of the people. Industrial education is undertaken in every civilised country either by the state or under state guidance and control. In the United States, every single State has a college where technical education is imparted, which is absolutely free. Germany, France, and England spend large sums annually for this purpose, and Japan is not behind-hand in the matter. But in India the matter has been sadly neglected, and technical education has not yet been undertaken on anything like an adequate scale either by the state or by individual effort.

In the
Independent
States of
India.

The question is now beginning to engage the attention of the Government, who are collecting information from various sources in order to do something in the matter. Some of the Independent States of India—the chief among them being the enlightened state of Baroda—have also realised the necessity of imparting a sound system of instruction in the arts and industries, and have been making earnest efforts to remove the long-felt want.

In British
India.

In 1890, an industrial survey was made in Bengal, and in the report the necessity of technical education was clearly pointed out. The Government

instructed some of the district boards and municipalities to start technical schools on a small scale. In Bombay the Victoria Jubilee Institute was started with assistance from the Government. This institution has since then been doing good work in training mechanics for employment in the mills. Technical schools have been started at a few centres in some of the other provinces, but none of them have yet attained to any considerable magnitude.

The Government Engineering Colleges at Roorke, Sibpur, and Poona, although they can hardly be said to be imparting industrial education, teach subjects allied to it. In the Sibpur Engineering College, classes have been started for a few minor branches of industrial training. The Behar School of Engineering imparts instruction in the science of engineering up to a moderate standard. The technical schools at Burdwan, Dacca, Kurseong, and other places, train workmen for workshops.

Independent efforts are also being made in this matter in almost every province. The institutions most worthy of notice are the Association for the Advancement of Scientific and Industrial Education and the Bengal Technical Institute. The former was started in 1904, and since then has been sending out every year young men to foreign countries for industrial training. Many of the students who have returned after a successful career abroad have either started factories on their account or found employment in existing mills and workshops. The Bengal Technical Institute was started in 1906. This institution has recently been amalgamated with

Independent
institutions.

the National Council of Education. It has arrangements for teaching some of the more important branches of technical instruction, such as mechanical and electrical engineering, technological chemistry, sheet-metalling, economic geology, etc. The Indian Association for the Cultivation of Science imparts instruction in practical chemistry and other similar subjects. The Indian Institute of Science—which owes its foundation to the munificence of the late Mr. J. N. Tata,—though not in itself a technical college, is sure to prove very useful for the higher study of technical subjects. The Mahila Silpa Samiti of Calcutta and similar institutions at other centres have set themselves to a very important side of technical education, namely, the training of women in the domestic arts and industries. Much good work is also being done by missionary societies in different parts of the country, but the standard they have kept in view is very low.

Industrial Exhibitions.

Industrial Exhibitions, held from time to time in different parts of the country, besides serving as an advertisement to consumers, produce an educative effect on the minds of producers. They tend to improve the production of goods by helping to expand the craftsmen's ideas. Thus both supply and demand sides derive advantages from such exhibitions.

Partial failure of technical education.

Our brief review discloses the fact that a great deal still remains to be done in the matter of technical instruction. Unfortunately, the little that has been done has not been attended with complete success. This partial failure has been due to several

causes. One reason is that technical instruction has not so far attracted intelligent and earnest young men. Only those who were likely to be hopeless failures in other walks of life have sought for industrial education, and it is no wonder that they have profited little by it. It is, however, a hopeful sign of the times that in recent years a greater attraction for it has become discernible among the better classes of young men in the country. The second reason is to be found in the fact that, owing to the lack of proper facilities for practical training, both in India and abroad, greater attention has been devoted to theory than to practical work. It is now being realised, however, that a thorough practical training is indispensable for success in industrial undertakings, and attempts are being made to remove the impediments which prevent students from getting it in workshops and factories.¹

The modern system of Technical Education is different from the indigenous system. Under the old system every young man used to go through his period of apprenticeship in the profession of his father, and, on his attaining manhood, became a member of his caste-guild. He could not leave the profession proper to his caste and adopt some other.

Technical
education and
castes.

¹ Complaints are often heard to the effect that Indian students encounter greater difficulties in getting admission into workshops and factories in England than in Germany, America, or Japan. It is not too much to hope, however, that the narrow-minded selfishness of factory-proprietors will gradually give place to a more enlightened sense of self-interest. It is satisfactory to note that the matter is now beginning to engage the attention of the India Office.

The new system does not recognise distinctions of caste, but admits young men of all classes and creeds. The system of training under caste-guilds has had its day of success; but under the changed conditions of the modern age, it must give place to a more systematic and scientific method of instruction.

Commercial
education.

Another need of the hour is for a proper system of commercial education. Modern business is a very complex affair, and no one can hope to achieve success in it unless he has thoroughly mastered its principles. The would-be captain of industry should, besides acquiring a general knowledge of economic science, make a serious study of the special problems which arise in this country in regard to the production and exchange of commodities. And a well-conceived method of instruction is needed to give them a sound knowledge of subjects like commercial law and history, banking methods, import and export problems, foreign exchange, transport and freight, company management, and the conditions of the markets in different countries. Commercial education is also necessary for those who intend to occupy the comparatively inferior positions in the business line. In recent years, colleges for the teaching of commercial subjects have been started at Calcutta, Bombay, and a few other cities, and it is expected that they will come into existence at other centres.

CHAPTER VIII

DISTRIBUTION

1. RENT

RENT in India depends on the interaction of three forces—custom, competition, and legislation.¹ In ancient days custom was the chief regulator of rents. With the increase of population and the gradual disappearance of the semi-socialistic ideas which used to govern the mutual relations of the members of the ancient village communities, rents began more and more to be regulated by competition. This led to great hardship in many cases, and the Government had to intervene in the interests of the tenant. The rent laws differ in the different provinces, but their general effect is to put a check on the power of the landowner to raise rents at his pleasure. The rent legislation itself starts from a basis of custom, and, while accepting the legitimate influence of competition, seeks to confine it within reasonable limits. It aims not so much at the curtailment of advantages naturally accruing to landlords as at the maintenance of rights already conferred on tenants by custom. Custom is, therefore, still, to a large

Factors which
determine
rent : custom,
competition,
legislation.

¹ Vide *The Imperial Gazetteer of India*, vol. iii.

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1
extent, the foundation of Indian rents. The Ricardian doctrine of rent is not absolutely true of any country in the world. The conditions which it assumes do not exist anywhere in the fullest degree; but in the United States and in England an approximation is made to these conditions, and to that extent the doctrine has application to those countries. In India, they are conspicuous by their absence; and, consequently, the theory can hardly be said to hold good in India. Here rent does not necessarily represent the difference between the produce of any particular plot and the plot on the margin of cultivation, but is a more or less definite charge. Productivity is, no doubt, a factor in the determination of the actual rent of any plot, but it is only one of several factors. Rent is often an element in the cost of agricultural produce.

The relative influences of the factors.

The actual rates of rent in any part of the country depend on the relative strength of the three factors mentioned above. Where the influence of custom is very strong, it would overcome the influences of other factors. Where it is weak, competition has its way, unless it is checked by law. In sparsely-populated tracts, such as Assam, Central Provinces, and Rajputana, rents are low. In some cases, tenants are invited to occupy land by allowing them to hold it free of rent for the first few years. In the densely-populated parts—namely, the tracts of heavy rainfall, or those watered by the great rivers—competition for land is very keen, and the landowner is often able, when not prevented by law, to rack-rent the tenants. If custom and law be

regarded as constant quantities, any change in the force of competition would necessarily change the rate of rent. In the early days of British rule, the population was much smaller than what it is now. Land was abundant, and tenants were fewer. Rents were, therefore, comparatively low. The population has since considerably increased. Moreover, owing to the decay of manufacturing industries, a larger proportion of the people is now engaged in agriculture than before. The competition for land has thus become keener in most places, and, consequently, rents have gone up. In the larger cities, rents have risen very high.

Rents, as a rule, rise when there is a rise in prices, but not proportionally. Generally they rise considerably after prices. In some cases, however, a rise in prices does not entail an increase of rents at all.

Rise of rents.
Connection
between rents
and prices.

Formerly, rents used to be paid in kind. At the time of the reaping of crops the representative of the landlord used to be present in the fields, and a division of the produce was made between him and the tenant. This system, although not free from difficulties, was very advantageous to the tenant. If crops failed, the tenant was not compelled to pay his rent in full,—perhaps not at all. The system still obtains, to some extent, in the remote villages; but cash rents have been generally substituted. These latter are less flexible than rents in kind. The legislative provisions deal mostly with money rents.

Cash rents and
rents in kind.

The systems of tenure under which land is held are various. Roughly speaking, the tenants or

Systems of
tenure:

I. E.

I

Permanent,

holders of land may be divided into two classes. The first class possesses, according to immemorial custom, a right of permanent and hereditary occupancy in the land so long as they pay the rent that is due. The amount of rent depends mainly on custom. In some cases, they are entitled to hold at permanently fixed rates, and their right is heritable and transferable; in others, the rent can only be enhanced on certain grounds. The second class consists of those tenants whose term of lease is limited to a number of years, and of tenants-at-will who may be evicted at the close of any agricultural year. The amount of rent payable by tenants of this class depends on the bargain which the cultivator can make with his landlord.

Temporary.

Condition of
peasants of the
two classes.

Tenants of the first class, together with those cultivators who own their lands, may be described as peasant-proprietors.¹ Their condition is incomparably better than that of the cultivators of the second class. In all matters relating to material prosperity, such as the possession of cattle, dwelling-houses, and well-watered fields, the superiority lies on the side of the cultivator-proprietor or the occupancy-tenant. "The magic of property," of which Arthur Young speaks so eloquently, has its effect in India as elsewhere. The peasant-proprietor is the most uncontrolled arbiter of his own lot. The condition of the tenants of the second class is generally

"The magic of
property."

¹Cf. J. S. Mill: "The idea of property does not necessarily imply that there should be no rent. It merely implies that the rent should be a fixed charge. What is wanted is security of possession on fixed terms" (vide *Principles of Political Economy*).

wretched. The economic and moral value of the system of peasant-proprietorship is immense, and there can be no surer means of improving the condition of the Indian cultivator than to confer on him at least limited rights of property.¹

So much about the rent of land used for purposes of cultivation and building. The rents of mining lands stand on an entirely different footing.²

Rent of mining
lands.

In practically all the Feudatory States, the mineral rights belong to the respective Rulers, and concessions are granted for mining and prospecting under rules that involve a certain amount of supervision by the Government of India. In parts of British India also, the minerals have been ceded with the surface rights by terms of settlement; but in the rest of India, the Government retain rights over the minerals and grant concessions for their exploitation in accordance with the terms of Rules framed by the Government.

By these Rules, *exploring licenses* for one year can be obtained, but they give no exclusive or perpetual rights, and there is no prohibition anywhere against free exploration in unoccupied and unreserved land. *Prospecting licenses* are granted, under certain conditions, over restricted areas for a period of one year, renewable for a second and a third term. Such licenses carry an indefeasible claim for a subsequent *mining* lease for any mineral other than

Exploring
licenses.

Prospecting
licenses.

¹In England, a system of peasant-proprietorship is being encouraged at the present moment under the provisions of the Small Holdings Act.

²*Vide* Sir T. Holland, *Sketch of the Mineral Resources of India*.

precious stones over the same or a more restricted area.

Mining leases.

Local Governments have the power to grant *mining leases* for periods of thirty years, which may be renewed for further periods with the sanction of the Imperial Government. Every such lease contains such conditions and stipulations as the Local Government may think necessary in each case.

Under the rules, the *prospecting rent* charged is a moderate rent not exceeding one rupee per acre. Every lessee has to pay a surface rent, the rate being assessable under the Revenue or Rent Law of the Province; or if no such rent is so assessable, the rate which may be fixed by agreement, subject to a maximum of one rupee per acre. In addition to this, he has to pay a *royalty* at certain specified rates. The lessee has also to pay every year after the first year a fixed yearly *dead rent*, but no lessee has to pay both royalty and dead rent in respect of the same lease, but only such one of them as may be of the greater amount.

Ownership of land.

The question of the ownership of land is one of the many disputed questions of Indian Economics. In Europe and America, nationalisation of land is the favourite ideal not only of Socialists but also of many scientific economists. The influence of this ideal has made itself felt in India, where there is a tendency among the officials to regard the Government as the universal landlord,—the ultimate proprietor of all lands,—and to consider the revenue taken from the people by the state as in the nature of rent. Some would go further and draw the legitimate

conclusion from such a theory that the Government would be justified in demanding as its revenue the whole of the economic rent. An attempt is often made to prove historically the correctness of this view.¹ Without entering upon the discussion of the technicalities of this question we may say that, for economic purposes, each of three classes of persons may be regarded as having a limited right of proprietorship,—the tenant, the landlord or zemindar, and the Government. Besides, the Government itself is the direct owner of large plots of land, such as waste land, land which has been forfeited or lapsed to or purchased by the Government, and all public land. With regard to these, the state stands on the same footing as a private landlord, the only difference being that these lands have not to pay any additional land-revenue. Rents of such lands are governed by pretty much the same principles as those of private lands.

2. WAGES

In the old village communities, wages as such did not exist, but all labourers were remunerated by portions of the produce. Custom still influences wages to a large extent; the amount of influence, however, varies according to the nature of the industry and the enlightenment of the labouring population. Broadly speaking, it may be said that wages are comparatively fixed. They are not half so elastic and responsive to changes of circumstances as

Wages in
ancient village-
communities,

in modern
times.

¹See chap. xii.

Influence of
competition.

in Europe and America. Wages do, no doubt, fluctuate on either side of the customary rates, but such fluctuations are always confined within narrow limits.

Competition is, however, becoming daily more and more important in the regulation of wages. In those parts of the country in which agriculture is the chief occupation of the people, there is very little demand for hired labour, and consequently a low and non-progressive scale of wages is found. This is specially the case where the population is very dense.¹ But a great density of population does not always cause a low rate of wages. Where, side by side with high density, there is a great demand for labour, as for instance, in the cities, the scale of wages is high. So also, wherever a demand of labour is created by large undertakings, such as the establishment of mills or the construction of railways, wages rise. On the other hand, in the sparsest parts of the country, wages are exceedingly low, because there is no demand for labour. But though competition is an active factor, the scope given for its operation is limited. Labour is still comparatively immobile. The circumstances which cause the movement of labour are rare; and the low standard of subsistence of the labourer, his social sentiments, and his ignorance are against such movement.

¹Many economists regard the current doctrine of wages as being founded on a misconception. "In truth," says Mr. Henry George, "wages are produced by the labour for which they are paid, and should, other things being equal, increase with the number of labourers." According to Mr. Walker, wages represent the residual share in distribution.

Wage-earners in different employments are classified as skilled and unskilled labourers. In the manufacturing industries, the labourers earn wages mostly as unskilled workmen, skilled labour being in the main supplied by foreigners. In such cases, the remuneration of labour represents a very small proportion of the total produce. This is the injustice of the capitalistic system of production against which labourers are fighting in every country.

Skilled and
unskilled
labour.

The wages statistics are incomplete, and admittedly faulty. By far the most important class of labour is agricultural, but the record obtained entirely fails to give a reliable indication of the remuneration of labourers. Wages differ not only in different employments but also in the same employment according to differences of locality and circumstances. The regularity of employment also varies greatly, and employment is practically nowhere continuous throughout the year. An average wage, therefore, for India generally has little meaning; but, for purposes of comparison with other countries, it may be calculated at 3 as. (3d.) per diem for the able-bodied unskilled labourer.¹ The average wage of the child-labourer or woman-labourer is, of course, less.

Average wage.

Various kinds of wages are prevalent in India. In the factories, and in all employments in which large numbers of people are engaged, wages are paid according to time. In the handicrafts and the domestic industries, the usual system is of task- or piece-wages. In some cases, wages are regulated

Kinds of
wages.

¹ For a somewhat more detailed account of wages see Appendix.

by special contract; in some others, a certain minimum is agreed upon, and if the work is done better, a higher rate is given. Lastly, when all the members of a family are engaged for any work, they are paid collectively.¹

System of
payment.

The system of payment was formerly in kind; but now money payment has become the rule. In the remote villages the agricultural labourers, and sometimes the artisans and domestic servants also, are still remunerated, wholly or partly, by a percentage of the crop-yield. There is a tendency, however, everywhere for money-wages to be substituted for wages in kind.

Rise in wages,
real and
nominal.

Money-wages have increased during the last fifty years,² but the rise in wages has not kept pace with the rise in prices. The wages of the two chief classes of labourers, artisans and agricultural labourers, have risen in the Punjab and in Bengal much more than in the other provinces of India during the last 40 years. The indicated rates of increase for agricultural labour have been 29 per cent. in Bengal and 49 in the Punjab; and for artisan labour 48 per cent. in Bengal and 50 per cent. in the Punjab. But during this period the rise in the prices of the food-grains has been much higher proportionally. For instance, in 1873 the average price of common rice for India was 18·2 seers per rupee, while now it is only 10 seers. The average for Bengal has risen still higher. In 1862 rice sold

¹ These different kinds are technically distinguished as time-wages, piece-wages, task-wages, contract wages, progressive wages, and collective wages respectively.

² See Appendix.

in Bengal at the rate of $29\frac{1}{2}$ seers for the rupee, but the present rate is 8 or 9 seers. Thus we find that although nominal wages have increased, real wages have in many cases decreased.¹

The question which suggests itself here is—Is there any connection between prices and wages? There is certainly some sort of connection, but it does not always manifest itself in the same result. The connection is, in fact, rather peculiar. The most direct and perceptible connection is found in a reduction in wages when food is inordinately dear. The reason is this. The failure of the crops destroys a large portion of the funds available for paying wages. At the same time, the number of people seeking employment is greatly enhanced, and labourers are found ready to work in return merely for the barest subsistence. Thus a decrease in the demand for labour and an increase in its supply cause the wages to fall. When, however, a rise in the price of produce is due to a larger demand, and extra profits are thus obtained, the expansion of business increases the demand for labour, and wages rise.

Connection
between prices
and wages.

3. INTEREST

The capital of most of the large industries is raised in Europe, and the interest on such capital, together with the profits, has to be paid abroad.

Capital mostly
raised in
Europe,

¹ According to the Report of the recent Prices Enquiry, the averages of real wages in important towns have increased during the last 25 years by about 25 per cent., and in the rest of the country from 5 to 15 per cent.

and borrowed
from banks.

Rate of
interest.

The subscribed capital of a firm is never sufficient for the carrying on of the business, and every firm has, therefore, to borrow money on occasions. This they get from the Presidency and other banks.

The rate of interest, although it is theoretically the same for all at any given time and place, depends in practice upon the security which a firm can offer and the period of time for which money is borrowed. The rates also differ in different parts of the country. The Bank rates in the three Presidency towns follow one another pretty closely, but in the interior of the country the rates of interest are higher. Even within the limits of the Presidency towns, the rates are not uniform—those charged by the smaller indigenous money-lending concerns being higher than the rates of the Exchange Banks. The Bank rate published by each of the Presidency Banks represents the charge for a loan on the security of Government paper. This rate varies from day to day according to the demand for money; but it is generally high in winter, when the agricultural products are ready for sale and export, and low in summer. As a rule, the Bank rate is the lowest—3 or 4 per cent.—in July and August; in September and October it begins to rise slowly, and the upward movement is continued till in February and March the rate reaches the maximum—usually 8 or 9 per cent., but sometimes as high as 11 or 12 per cent. In April, it shows a downward tendency, and continues to fall till it again reaches the minimum. The average

*Contrav.
Trawancore*

rate of interest is usually a little higher than in England and other countries of Europe; but it is not so much the average effective rate for the whole year as the maximum rate in each year that is very high.¹ On their Deposit side, the Banks keep the moneys, on which they pay interest, the rates being of course lower than those at which they lend. The Government and other public bodies also occasionally borrow money. The Government rate of interest is at present $3\frac{1}{2}$ per cent.

Agricultural capital is supplied by the village money-lender. The agriculturist is almost always poor, and he usually cultivates his land with capital borrowed from the money-lender, for which he has to pay high rates of interest, sometimes 50 or 60 per cent. The practice of borrowing money is almost universal. It is frequently a part of the bargain that the produce should be delivered to the money-lender at a certain price, which is always below the market rate. Sometimes he becomes heavily indebted, and the debt often runs through the life of the borrower and is inherited by his heirs.

The money-lender.

A high official of the Government once wrote, "A great number of the agricultural community appear to have a kind of running account with the mahajan; he advances them seed, giving one *seer* less than the market price. In other instances the advance is made at seed-time on the *sawai* principle, which means a return at harvest of one-fourth more than the quantity borrowed at seed-time. He lends money, moreover, for the inevitable marriage and for

Opinion of a high official.
The money-lender and the creditor.
Usual arrangements.

¹ Vide J. M. Keynes, *Indian Finance and Currency*.

the equally inevitable lawsuit. When the tenant falls on evil days, he would advance him rent to save him from ejection. He is, in fact, at all times, the resource to which the needy agriculturist goes for relief; and the consequence is that a large proportion of the cultivating community is seldom free from the mahajan's influence. When the crops are reaped, the greater portion finds its way to his granary; the tenant retains a share for his immediate use, which is seldom sufficient for the consumption of his household until the following seed-time. Long before the next harvest approaches he has, as a rule, to have recourse to the mahajan. The system is not without its advantages in hard times; it is to the interest of the creditor as well as the debtor that the latter should live; there is a community of interest which secures him from starvation."

Community of interest.

The money-lender does, no doubt, exploit the misery of the poor cultivator, but he renders him good service, in so far as he enables him to live. Sir F. H. Nicholson says, "On this subject there are two opinions, one of which regards him as on the whole rather beneficent and friendly, as a sort of partner with the ryot, supplying the needs of the latter, maintaining him in times of misfortune. Others, again, regard him as a beast of prey seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle. As society and credit are at present constituted, he fills an absolute gap, and is a rural necessity. On the other hand, he is most undoubtedly an expensive and

Sir F. Nicholson's view.

The money-lender a dangerous necessity.

dangerous necessity. He has been found in India from time immemorial."

Credit is almost an inevitable condition of small farming. The farmer needs credit for the purchase of land; for permanent improvements, such as the digging of wells; for equipment, including implements and cattle; and as working capital for buying manures, seeds, and fodder, and for paying the labourers. The late Mr. Justice Ranade advocated the establishment of credit institutions all over India, so that agriculturists may get loans at low rates of interest. Facile credit is often very beneficial, but it has a drawback also. It is like a double-edged weapon, for there is the danger of its leading ignorant and thriftless cultivators to further indebtedness. Easy credit may sometimes mean reckless borrowing, and often for purposes other than those which help to increase the volume of production.

Need of facile credit,

its danger.

Various measures have been proposed from time to time to check the indebtedness of the cultivator and thus to improve his condition. Two measures have been recently adopted by the Government in this connection, namely, The Punjab Land Alienation Act and the Co-operative Credit Societies Act. The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and, at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations started in Germany and other countries of Europe under the influence of Raiffeisen and Schulze Delitzsch, on which the Indian Co-operative Credit Societies are modelled,

Measures for checking peasant's indebtedness.

Land Alienation Act.
Co-operative Credit Societies.

fulfil both these conditions. The principles of action of these associations are those of self-help, co-operation, solidarity, prudence, thrift, and public spirit.

Check
for usury.

Another proposal is to check usury by legislation. This subject is now engaging the attention of the Government of India, who have invited the opinion of the local Governments and public bodies on the three suggested remedies, namely, (a) the fixing of a legal maximum rate of interest recoverable; (b) the determination of a legal maximum amount of interest recoverable, commonly known as *damdupat*; and (c) the bestowal of authority on the courts to go behind a contract, reopen a transaction, and reduce the rate of interest to what is thought to be equitable. The first remedy seems to most people to be the most suitable, but the opinion of the Government seems to incline towards the third.¹

¹ In regard to the comparative merits and defects of the three suggested remedies, the Government of India say in their circular letter: "The first of these solutions has the authority of various foreign precedents and of certain special local laws in this country, but the Government of India are willing to accept the adverse opinion of the Select Committee of the Houses of Parliament on money-lending which reported in 1898. . . . The rule of *damdupat* has the advantage of being already in force in parts of the country—between Hindus in the town of Calcutta, in Berar and Bombay, and in certain Native States, and it has the authority of the early law-givers. . . . At best, however, the rule is a rough and ready remedy. . . . In the case of *Ram Conoy Andicary vs. Johur Lal Dutt*, Mr. Justice Wilson speaks of *damdupat* as a rule of limitation which only affects the accumulation of interest. . . . This rule also indirectly controls the rate of interest. The third remedy is that embodied in the English Moneylenders' Act of 1900 (for extortionate or unconscionable rates). . . . The Government are disposed to think that legisla-

The time is certainly ripe for taking action against usury, and any well-conceived measure is sure to receive full public support.

In Bengal, a number of public-spirited gentlemen have established Co-operative Grain Banks (*Dharmagolas*) in several villages, some of which are reported to be working well. The cultivators deposit portions of their produce in these banks, which in times of need they are allowed to withdraw. Needy members are also given loans of grains from these deposits. The chief merits of the system are its simplicity and its accord with the social sentiments of the people. A third advantage is that the value of grain increases in times of scarcity. But its defect is that the grain cannot be invested in any profitable undertaking so as to yield interest and profit. Moreover, there is the risk of loss through deterioration or waste. But the idea is certainly an excellent one, and it ought to be given a fair trial.

Co-operative
Grain Banks.

tion on the lines of the English Act offers the best chances of success. The stock arguments against it are : (i) it would interfere with private contract ; (ii) it would increase litigation ; (iii) it would leave too much to the judge ; (iv) it would harass and confuse the ordinary operations of trade ; (v) it would tend to raise the interest paid by those who do not resort to the courts ; (vi) it would be ineffective. . . . Finally, the Governor-General in Council would only remark that while he fully recognises the benefits which have accrued from the extension of co-operative credit, and the potentialities for good inherent therein, he does not consider that the progress made in this direction affords in itself an adequate remedy of the state of affairs which it is desired to alter."

4. PROFITS¹

Profits of
manufacture
compared with
those of
agriculture.

The profits of manufacture are in every country higher than those of agriculture. In other words, as a money-making process, agriculture is not so profitable a business as manufacture. Again, as we have already noticed, agriculture has to depend on several uncertain factors, such as drought or excessive rain, and the profits are consequently more uncertain than in manufacture. Manufacture involves various stages in production, and the profits are thus obtained by a larger number of persons.

Statistics.

Full details regarding the profits of the different industries of India are not available; but the reports published by the larger business firms give us some idea of the general rates of profits. These may be said to range from 8 to 15 per cent. Sometimes, the profits of certain industries go up as high as 30 or 40 per cent., but such cases are exceptional. Profits are generally high in the mining and jute industries. Statistics of profits in the small industries are very difficult to gather, but it will not be incorrect to say in a general way that they are comparatively low.

Profits of the
middleman.

In considering this topic we should take into account the profits of a class of persons who cannot properly be called organisers of industry, but who stand between the producer and the trader. These are middlemen who sometimes make very large profits. In the villages they are generally the money-lenders. They purchase wholesale the surplus

¹ Some points relating to this subject have been treated in chapters vi. and vii.

produce of corn from the cultivators and send it to other parts of the country.

So much for the distribution of the produce. It is not necessary, however, that the shares should go to different persons. Very often, all the factors are controlled by the same person, and in such cases all the shares would go to him. India is a country mainly of small industries which are carried on by the workers on their own account. They supply the labour as well as the small capital required, and they are themselves the organisers. In a large number of cases, therefore, the whole of the produce goes to the same persons and the question of distribution does not arise at all. In the institution of peasant properties also, as we have seen, there is hardly any distribution among different parties. Thus, at present, the economic problems of India are mainly those of production rather than of distribution; but with the growth of large-scale industries, the problems of distribution are likely to assume greater importance in future.¹

¹ The effects of the misdirection and waste of capital and labour due to the inequitable distribution of wealth in the west have been thus generalised by Mr. L. G. Chiozza Money: "The unduly large share of the national dividend possessed by the rich produces in them grave faults of character and purpose which make them indifferent administrators of the capital without which labour is powerless. The unduly small share of the national dividend possessed by the poor is the source of a stream of moral and physical evils which, mingling with the waters of death which descend from the high levels of luxury, produce effects whose causation is only obscure as long as we neglect the study of the Error of Distribution" (*Riches and Poverty*, p. 152).

CHAPTER IX

EXCHANGE

1. A BRIEF HISTORY OF INDIAN COMMERCE

Trade in
ancient times,

FROM the very earliest times, trade between India and the neighbouring countries was carried on by land as well as by sea. India was once "the seat of commerce."

by sea,

As early as the sixth or seventh century B.C., India had commercial relations with Italy, Greece, Egypt, Phoenicia, Arabia, Syria, Persia, China, the Malay Peninsula, and the islands of the Indian Archipelago. The Hindus built ships and navigated the ocean as early as the age of Manu's Code. Later, they held in their hands all the threads of international commerce, whether overland or by sea. The unknown author of that remarkable book, the *Periplus of the Erythraean Sea*, describes the commerce in detail,¹ and from him we learn that Indian vessels frequented the Arabian Sea, the Red Sea,

¹ Vide *Periplus of the Erythraean Sea*, and others works by Greek writers, translated by J. W. M'Crindle. The term Erythraean Sea was applied to the Indian Ocean with its bays and gulfs.

the Persian Gulf, and the Indian Ocean, and his testimony is corroborated by that of other ancient historians and geographers, such as Pliny, Arrian, Strabo, and Ptolemy. The chief Indian seaports were: Barygaza (modern Broach), Saurstra (Surat), Masalipatan, Barbarikon, Mouziris, and Nelkunda. There were other commercial towns, some of which also attained to great eminence. The value of this maritime commerce must have been very considerable.¹ The chief articles of export were rich apparels made of silk and cotton, pearls, diamonds and other precious stones, ivory, spices, drugs and aromatics; and those of import were gold, silver, brass, copper, and tin. A brisk coastal trade was also maintained between the seaport towns.

Trade by land with Central Asia, China, and by land. other parts of Asia, as well as some countries of Europe, was carried on by caravans. There were several trade-routes which were availed of by the merchants. Besides, an active internal trade was carried on between the different parts of the country itself. The great rivers served as commercial routes, and royal roads connected the important cities.

The commercial activities were continued in full vigour till the ninth or tenth century A.D. During the Mahomedan rule, however, maritime commerce was gradually abandoned; but trade intercourse by land was maintained. In 1498, the voyage of Vasco da Gama round the Cape of Good Hope opened a route for commerce between India and

In mediaeval times.

¹ Strabo says: "I found that about 120 ships sail from Myos Hormos to India."

In modern
times.

Europe, so much easier, cheaper, and safer than any that had previously been used, as to completely change the destinies of the country and its relations to the general affairs of the world. Foreign maritime commerce was thus once again revived, this time, however, by Europeans. In the seventeenth and eighteenth centuries, the Dutch, the Portuguese, the French, and the English companies competed with one another for the largest share in the commerce with India. Ultimately, the English East India Company was able to practically oust the other companies from the Indian waters. The invention of steamships led to a further increase of the maritime commerce. And lastly, the opening of the Suez Canal brought India much nearer to Europe and gave a fresh impetus to the commercial development of the country.

The foreign trade of India is now steadily increasing, but Indians have very little share in it. The bulk of the internal trade still remains in the hands of Indians, but even in this they hardly display the enterprise, pluck, foresight, and resourcefulness which are essential for success in business.

2. THE INDIGENOUS SYSTEM OF INLAND TRADE

Indigenous
system of
internal trade.
The village
trader.

Every village has its resident traders. In many instances the chief trader combines the functions of the money-lender and grain-merchant with his own proper vocation. Buying and selling are done in the markets, which meet daily in the more important villages and on fixed days in the week in other

places. In addition to the shopkeepers, there are hawkers or itinerant sellers who supply the people with articles of merchandise in their homes. The religious festivals and fairs, some of which are attended by large numbers of pilgrims and visitors, also serve as important marts for the exchange of commodities.¹

Fairs and religious festivals.

A portion of the village produce is sold in the village markets for local consumption, and the surplus is handed over to the agents in the towns and thence dispatched to trade centres in other parts of the country, or exported out of it. Imported merchandise is distributed by the same machinery, working in the opposite direction. Internal trade may be divided into two kinds: (a) traffic with the ports, and (b) commerce between different parts of the country. The former is largely concerned with the collection of manufactured products for export, and with the distribution of imported merchandise; the latter with supplying the surplus produce of one part to the other parts of the country. Trade passes through the hands of a considerable number of middlemen and is consequently hampered to no small extent.

Two kinds of internal trade.

Towns spring up where trade activity increases, and historical cities lose their importance as soon as they cease to be trade centres.

Growth and decay of towns.

¹ Vast concourses of people gather at the Kumbha melas which are held at Allahabad, Hardwar, and other places. The car-festival at Puri and the fairs at Harihar Chattra are attended by people from the most distant parts of the country. These fairs serve not only the purpose of marts but also of industrial exhibitions.

Trading
castes.

Employment in trade often gives rise to trading castes. These castes have now lost much of the importance which they once possessed, but they still possess a considerable degree of organisation, and retain a good part of the trade of the country in their hands. The Marwaris of Rajputana are found in almost every part of the country. In Madras, the Chettis form the most important trading community. In the Bombay Presidency, the largest share of trade is in the hands of the Parsis and the Bhatiyas, while the Baniyas still monopolise the bulk of the trade of Northern India. Among the Mahomedans, the most notable commercial classes are the Boras and Khojahs of Bombay and Gujrat.

3. TRANSPORT

The old
system.

For the growth of trade and commerce the development of means of rapid and cheap transportation is essential. Till the middle of the last century pack-animals, such as bullocks, horses, camels, and asses, or carts drawn by these animals, were the only instruments of transport by land; while country-made boats were the instruments of riverine transport. With the development of railway communication, the importance of pack-animals and carts has diminished, but they are still largely utilised for carrying goods to the towns, ports, or railway stations.

Means of
communication
in early
times.

From the very earliest times, the construction of roads and canals was considered among the chief duties of the rulers. Under the Hindu as well as

the Mahomedan rule, roads and canals were constructed,¹ which connected the outlying districts with the capital. Major Briggs, speaking of these roads, remarks that for bold engineering skill and wonderful contempt of difficulties, they "deserve to rank with the works of the old Romans." Their number, however, was few and condition not always satisfactory. The great rivers did, no doubt, furnish means of communication and some facilities of transport, but they were found insufficient for the purpose of keeping up a constant intercourse between the different parts of the country.

In the early days of the East India Company, the Government did not recognise the execution of public works as a necessary part of their policy.² In the latter years of the Company, however, matters began to improve, and after the Mutiny of 1857 and the assumption of the government of India by the Crown, the construction of public works went on with increasing speed. Railways now connect all the principal districts and cities, the great rivers have been bridged, the country has been covered with roads, and the rivers and canals afford increasing facilities of transport. Over thirty-four thousand miles of railway are now open, and the total length of roads is almost beyond calculation.

The railways, instead of superseding the roads, have actually increased the traffic on them. Side

¹ The Jumna Canal, constructed by the Mahomedan Emperors, must be considered as a great achievement for those days.

² Vide *Imperial Gazetteer*, vol. iii.

by side with the construction of railways, progress has been made with the construction of roads. Trunk roads now run to and from all important centres, and innumerable feeder-roads connect the trunk roads with one another.

Steamship
communica-
tion.

Steamship communication has been developed in those parts where the rivers are navigable. The canals also offer some facilities of communication and transport. It is, however, in maritime transport that the greatest development has taken place.

Communica-
tion of
intelligence.

Lastly, the post office, the telegraph, and the telephone afford wonderful facilities for the communication of intelligence, so that the slightest alteration in trade conditions in a particular place is now almost instantaneously reflected in the most distant parts of the country.

4. THE PRESENT POSITION OF COMMERCE AND TRADE

Internal trade.

In a vast country like India, the internal trade cannot but be immense, and the volume is daily increasing. But it is not possible to measure this volume of trade with any degree of accuracy. The quantity of total inland rail- and river-borne trade in 1913-14 was shown in the official Blue-books as 66 million tons and the value nearly 900 crores.¹

The great bulk of the internal trade, representing about two-thirds of the total, flows directly to and from the chief ports, the balance—about a third—

¹ *Review of the Trade of India*, p. 89. On page 49 of the *Review*, it is pointed out that the total trade "actually represents a duplication of figures."

is the trade within British Provinces and Native States. The traffic flowing from the port towns to the interior of the country consists principally of foreign merchandise imported by sea, and that flowing to the port towns from the country comprises chiefly food articles and raw materials.¹ Among the provinces, Bengal's position in the inland trade is high on account of jute, rice and other food grains, oilseeds, coal, and tea produced in the province. Bihar and Orissa is important for its enormous production of coal. Tea is the staple product of Assam. Cotton, wheat, and seeds of the Bombay Presidency and Sind, cotton and groundnuts in the Madras Presidency, and spring and winter crops (*e.g.*, rice, wheat, gram, linseed, rapeseed, etc.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to Calcutta, Bombay ports, Madras ports, and Karachi. The United Provinces, well served by railways, conduct a larger business in purely inland trade than any other province of India.²

The inland trade is more than double the foreign sea-borne trade; and if to the former be added the trade by rail and river between the internal divisions of each province, as also the coasting, the total comes to three times the foreign trade.

The foreign commerce of India, although only a fraction of the trade, is an index to the total value of Foreign commerce.

¹ "In the inland trade Calcutta holds the premier position as a trading centre amongst the port towns, its trade being much larger than the total trade of all other port towns taken together."

² *Review of the Trade of India.*

Imports : trade. Nothing can give the reader a more accurate idea of the present position of Indian commerce than a glance at the latest trade returns available. The total value of imports in the year 1913-14 was 234½ crores of rupees (£156½ millions). Of this, the value of merchandise was Rs. 191 crores, and that of treasure Rs. 43½ crores (including a little less than 7 crores on Government account).

The largest class of imports was that of articles wholly or mainly manufactured. It formed about 79·2 per cent. of the total imports. The value of cotton piece-goods and manufactures was over Rs. 66 crores, or about 33 per cent. of the total values of imported goods. Of the cotton goods the United Kingdom supplied 90 per cent. of the whole. The value of woollen manufactures was Rs. 3·75 crores, and that of silk goods, Rs. 3 crores. Of the woollen goods Germany held the market to the extent of 80 per cent. of the total values, but Cawnpore and Bangalore competed with shawls woven from Indian wool, decidedly superior in quality to the general level of foreign imports. The imports of silk goods from Japan and China represented 91·3 per cent. of the total. Glassware and earthenware were imported of the value of Rs. 2·5 crores, and paper and pasteboard and stationery, Rs. 2·25 crores. The value of metals and manufactures thereof was Rs. 22½ crores. Railway plant and rolling-stock was imported of the value of Rs. 10 crores; machinery and mill-work, Rs. 8 crores; and hardware and cutlery, Rs. 6½ crores. Of the articles of food and drink imported the most important was sugar,

of which nearly Rs. 15 crores' worth was imported. The chief sources of supply of cane-sugar were Java and Mauritius, the Straits Settlements, and China, and those of beet sugar were Austria-Hungary, Germany and Belgium. It is worthy of note that although India is the largest single producer of sugar in the world, her import of foreign sugar is steadily increasing. The value of imported salt was Rs. 87 lakhs, of which by far the largest proportion came from the United Kingdom. The other sources of supply were Spain, Germany, Turkey, Aden, and Egypt. Other articles of food imported were wines and spirits, fruit and vegetables, salted fish, biscuits, bottled provisions, condensed milk, spices, and tea. The import of raw materials and articles mainly unmanufactured, amounted to Rs. 10½ crores; and that of miscellaneous and unclassified goods to nearly 3 crores.

Sugar.

Salt.

Other food articles.

Raw materials

The value of exports, representing 52 per cent. of the total trade, amounted to Rs. 256½ crores (£170¾ millions). The value of Indian produce was 244¾ crores; and exports of treasure amounted to Rs. 7 crores, of which gold was worth Rs. 4½ crores, and silver, Rs. 2½ crores.

Exports :

Treasure.

Raw materials and articles mainly unmanufactured formed the largest class of exports, representing 47 per cent. of the total exports of Indian merchandise. The total value of exports of this class was Rs. 122½ crores. The export of raw cotton amounted to Rs. 41 crores; seeds, Rs. 25¾ crores; raw jute, Rs. 30¾ crores; raw hides and skins, Rs. 11½ crores; raw wool, Rs. 2½ crores; coal and coke, Rs. 70 lakhs.

Raw materials

cotton,
jute,
seeds,
hides and
skins,
wool,
coal and coke.

Articles of food and drink, representing 25·5 per cent. of the exports of Indian merchandise amounted to Rs. 64 $\frac{3}{4}$ crores. Of this, the value of wheat and wheat flour was Rs. 13 $\frac{1}{2}$ crores (£8·75 millions), and rice Rs. 26 $\frac{3}{4}$ crores (£17 $\frac{3}{4}$ millions). Germany was the chief among the European purchasers of Indian rice, but the exports to the United Kingdom and Austria also were considerable. As regards wheat, the United Kingdom took about 80 per cent. of the total exports, Belgium, Germany, and France being the other European purchasers. The export of tea amounted in value to nearly Rs. 15 crores. Here, again, the United Kingdom was by far the largest purchaser, the percentage of her purchases being 70 per cent. of the total exports. The export of coffee amounted to 1 $\frac{1}{2}$ crores.

Of the articles wholly and mainly manufactured, jute manufactures had the largest export, the value being Rs. 28 $\frac{1}{4}$ crores. The next in importance were the cotton manufactures, which amounted to Rs. 12 crores. The other articles of this class were coir, tanned skins and hides, and lac.

The exports of chemicals and drugs amounted to Rs. 4 crores. The total value of oil exported was a little less than a crore. The export of metals and manufactures thereof amounted to Rs. 6 $\frac{1}{2}$ crores.¹

The re-exports of foreign merchandise amounted to Rs. 4 $\frac{1}{2}$ crores (£3 millions).

¹ Under this head, the export of manganese is worth noting. During the last ten years, the value of the export has increased from 25 lakhs to 1 $\frac{1}{4}$ crore.

During the last fifty years, the total value of the foreign commerce of India (merchandise) has increased from 127 crores to over 440 crores; the increase of imports (merchandise) being from 44 crores to 190 $\frac{3}{4}$ crores, and that of exports (including re-exported merchandise) from 81 crores to 249 $\frac{1}{4}$ crores.¹ The growth of the import trade is thus outrunning that of the export trade.

Progress in
Commerce.

The total trade with the United Kingdom amounted in 1913-14 to Rs.176 crores; the trade with British Possessions other than the United Kingdom amounted to Rs.46 $\frac{1}{2}$ crores, and that with foreign countries amounted to Rs.210 crores. India's imports come mainly from the United Kingdom, while her exports go chiefly to foreign countries. The following statement shows the proportion of India's trade, export and import, with each of the principal countries:²

Trade with
principal
countries.

	Export to (per cent.)	Import from (per cent.)
United Kingdom - - -	23·7	64·1
British Possessions - - -	14·1	5·9
Germany - - -	10·3	6·9
China - - -	2·3	·9
United States - - -	8·9	2·6
Japan - - -	9·2	2·6
Belgium - - -	4·9	2·3
France - - -	7·1	1·5
Java - - -	0·8	5·8
Austria-Hungary - - -	3·9	2·3
Russia - - -	1·6	·03

¹ Vide Charts in the Appendix.

² Vide the *Trade and Navigation of India* and the *Review of the Trade of India*.

Trade of India
compared with
that of other
countries.

The following table is interesting as comparing the trade per head of the Indian people with that of the other countries:

	£	s.	d.
India - - - -	0	17	7
Russia - - - -	1	12	10
United Kingdom - -	25	14	10
France - - - -	15	9	7
Germany - - - -	15	7	7
Italy - - - -	7	1	9
United States - -	9	1	7
Japan - - - -	2	12	7
China - - - -	0	7	4

Shipping.

The bulk of the carrying trade with India is done by English ships.¹ During the year 1913-14, the tonnage under the British flag was nearly 75 per cent., and including the Indian register, represented about 77 per cent. of the whole. The number of vessels under foreign flags which entered and left Indian ports was 1466, of which the German and Austrian vessels represented nearly two-thirds. The other countries whose vessels do the carrying business with India are Japan, Norway, Italy, Holland, and France. Vessels belonging to foreign countries are gradually obtaining an increasing proportion of the carrying trade. Unfortunately, vessels belonging to India herself have no share in Indian shipping.

Frontier trade.

The trade across the land frontiers of India is equivalent to less than five per cent. of her

¹The popular notion that 'trade follows the flag' is true in this case.

sea-borne trade. The statistics of this trade are incomplete, and not wholly reliable. The approximate value of the frontier trade was during the year 1913-14 as follows: Imports, Rs. 12 crores, and exports, Rs. 9½ crores. This trade has increased in a very satisfactory way during recent years.

The net value of the coasting trade during the year under review (in merchandise) was 68½ crores. The greater part of this trade is between the ports on the east coast and Burma, and along the coast between Bombay and Karachi.

The total value of gold absorbed by India during the ten years 1904-05 to 1913-14 was 219 crores of rupees.

From the foregoing account of the commerce of India it is clear that the exports of India exceed her imports. The excess of exports over imports (including merchandise and treasure) in 1913-14 was 21·3 crores, including Government transactions, and 36 crores, excluding Government transactions, the average for the last three years being 30·15 and 41·1 crores respectively. The following explanation in regard to the statement of the balance of trade is interesting: "There are payments due to India for her exports, for the import of capital into India, for remittances from foreign countries to persons residing in India, including tourists. There are payments due by India for imports from abroad, the Secretary of State's drawings, interest on capital invested in India through private channels, investments in other countries of the earnings of European merchants, lawyers, civil servants, etc., in India, the

Coasting
trade.

The balance of
trade.

earnings of European steamers employed in the coasting and foreign trade of India, remittances to Indians residing in foreign countries, and premiums and policies issued by insurance companies outside India, etc."¹ India has a very favourable balance of trade; but her obligations to the United Kingdom and other countries are large. Consequently, she receives payment in bullion only for a portion of this balance. For the rest she receives no direct return. How far this latter amount is a drain upon the resources of the country will be discussed in a later chapter.

5. PRICES

Rise of prices.

From about the middle of the nineteenth century a tendency towards a rise of prices became visible. This tendency has become more progressive during the last twenty-five years, and during the last ten years the rise in prices has been enormous. The decennial average for the period 1891 to 1900 was higher than the average for the previous decennial period, and the average for the period 1901-10 higher than that for the period 1891-1900. Prices have also risen considerably during the last four or five years. This rise has been especially marked in the prices of food-grains. The following statement shows the increase in the year 1909 in the average retail prices of the principal food-grains as

¹ Vide *Review of the Trade of India*, 1913-14.

compared with those of 1873 (the prices of 1873 being taken as 100):¹

Rice	-	-	-	-	-	222	Index- numbers.
Wheat	-	-	-	-	-	201	
Jawar	-	-	-	-	-	176	
Bajra	-	-	-	-	-	168	
Ragi	-	-	-	-	-	247	
Gram	-	-	-	-	-	185	
Barley	-	-	-	-	-	165	

The index-number for the seven food-grains taken together was 195. In 1908 the prices were even higher, and the index-number of food-grains then rose to 231. The following table gives the index-numbers of important articles for the years 1910-12 (the prices for the quinquennium in 1890-94—a normal period—being taken as 100):

	1910.	1911.	1912.
Food-grains—cereals	127	126	143
Food-grains—pulses	124	122	142
Other articles of food	130	133	136
Oils—seeds, oils, and oilcake	143	149	156
Textiles—cotton	119	144	160
Hides and skins	164	159	172
Other raw and manufactured articles	127	126	132
Building materials	142	146	149
General average	132	134	141

The averages, as shown by simple index-numbers, give only a rough idea—not a wholly correct view of the general price-level. The system of weighting, that is to say, assigning values to articles according to

¹ For details see *Prices and Wages in India*. A statement giving the causes of the rise of prices for every quinquennium will be found in Appendix E.

their importance in the consumption or trade of the country, would be more satisfactory, but this method is not free from difficulties.

**Causes of the
rise.**

Now the question is, what are the causes of this rise in prices?¹ Prices, as we know, are the expression of the relation of commodities to the medium of exchange. A variation can only ensue when there is a disturbance of this relation. A rise in prices can thus be due to one of four causes: (1) an increase in the demand for commodities; (2) a decrease in their supply; (3) an addition to the quantity of the medium; and (4) an increase in the rapidity of its exchange. It is difficult to say exactly to which of these causes the rise in prices is due, or whether it is due to a combination of two or all of these causes, and, if the latter be the case, in what proportion it is due to each of them. The population of the country has increased by nearly 10 per cent. since 1890, and this would account for a part of the rise. The standard of living has slightly risen in the country, thus raising the demand; and there has also been an enormous increase in the demand in other countries for Indian food-products. As for the supply, the statistics published by the Government show that the area of the cultivation of food-

¹ The Government of India deputed Mr. K. L. Dutt, a high officer of the Finance Department, to investigate the extent and the cause of this rise in prices. His Report was published a few months ago, and, whatever view may be taken of Mr. Dutt's conclusions, the Report itself is undoubtedly very interesting reading. A synopsis of the causes of the rise of prices, as given in this Report, will be found in Appendix F.

crops has diminished only in a few provinces, and increased in others; but these statistics are not wholly reliable, and it is not possible to say with certainty whether the total production of each of the important food-grains has increased or decreased. In any case, it is very probable that the supply has not increased in proportion to the demand, the production of jute, cotton, and other commercial crops for meeting the growing demand in the world markets having prejudicially affected the cultivation of food-grains.¹ As for the medium of exchange, it is a factor of great complexity even in a comparatively undeveloped country like India. It consists not only of coins and currency notes, but of bills, cheques, drafts, etc., the amount of which can never be definitely known; while the rapidity of exchange of the medium is a thing which cannot be measured. No one can, therefore, be sure as to how

¹ This is also the view taken by Mr. K. L. Dutt. But the Government of India, in their Resolution on the Report, observe that "strictly speaking, there has been no substitution of non-food for food-crops in the country as a whole," and "that so far as trustworthy statistical evidence is available, it would appear that the area under food crops has increased in almost exact correspondence with the growth of population, a fact which must be held to imply the production on the average of a relatively larger and more efficient food-supply, in view of the large extension of irrigation and transport facilities. The statistical data relating to acreage under food-crops do not, however, cover the whole ground, as information is admittedly wanting for large areas; and partly for this reason, and partly owing to the defective character of the information available regarding the other factors involved, no really reliable estimate of the out-turn during the period under review can be framed."

far the rise of prices is due to the currency system, but it is not improbable that the artificial regulation of the supply of silver currency—which prevents the automatic adjustment of the money supply to the demand—has had something to do with this rise. The rise may also be regarded, though in a small degree, as a part of the world-movement towards a rise of prices which has become manifest during the last few years.¹ The main causes of this world-movement appear to be: a higher standard of living throughout the civilised world, greater development of credit, and increased output of gold. In regard to the last factor, Prof. Seligman

¹The writer of an article headed "Prices and Currency" in the *Pioneer Mail* (April 28, 1911) suggested that the chief cause of this rise in prices was an inflation of the currency, the reasons assigned for such inflation being the absence of a gold standard and the comparatively high rate of interest which prevailed in India. He wrote: "Taking Mr. Atkinson's figures (in which the prices of 1868-1876 are taken as 100) we find that the index-number for food-prices, far and away the most important item, which stood in 1880 at 108, had fallen to 103 in 1887. In 1888 it rose to 111, and by 1892 it had risen to 133, falling slightly in 1893, the year of the closing of the mints, to 131. In the years 1896 and 1897, years affected by famine, it rose to 133 and 171 respectively, falling, however, in the next two years to 122. 1900 was, of course, a year of severe famine and scarcity, and the index-number rose accordingly to 152 (in 1900) and 148 in 1901. It fell in the following years, and in 1904 stood at 118, the figure of 1890. From that time it rose steadily to 139 in 1905, 167 in 1906, 178 in 1907, and 202 in 1908, a year, however, affected by scarcity. Since then, under the influence of good harvests, prices have eased somewhat, but they are still well above the level of 1904." These variations, the writer pointed out, in the level of prices exhibited a close correspondence with the variations in the issues of rupees from the mint.

says, "Gold is being turned out in such enormous quantities that it is falling in value. But a fall in the value of gold, other things being equal, is tantamount to a rise in prices."

As for the question whether the rise is likely to be temporary or permanent, it is safe to conclude, as Mr. Dutt does, "that the rise of prices is likely to continue for some time to come. At any rate, it is hardly likely to fall."

Rise
temporary
or permanent?

So far as international commerce is concerned, India has been a gainer by this rise in prices, for she has obtained a larger value from other countries for her exports. But within the country the different sections of the community have been differently affected by it. As all members of society are consumers of food-grains, the rise of prices has affected all to some extent. In so far as the rise has been due to an increase of demand, the cultivators, especially those who hold land at fixed rentals, have reaped an advantage, though, owing to their want of education, their ignorance of market conditions, and their extreme need, a large part of their gain has been filched away from them by middlemen. On the whole, it has improved their economic condition and enabled them to increase their consumption of goods. The trading classes have also benefited by it to the extent that the advance has stimulated the growth of commerce. It has been beneficial to landlords only in those cases in which they have been able to demand higher rents from their tenants in consequence of this rise. But the wage-earners in all occupations

Effects.

1.

2.

a.

b.

c.

d.

3.

4.

have undoubtedly suffered a loss, as the rise in wages has not kept pace with the rise in prices. This loss has been serious in cases in which the wages have been more or less customary or where the incomes have been more or less fixed. The rise in prices has placed a heavy burden on the middle classes of society through the increased cost of living. It is interesting to note that as a consequence of this rise, the debtor has reaped an advantage, while the creditor has suffered a rather severe loss.

CHAPTER X

EXCHANGE—(*Continued*)

1. CURRENCY

MONEY was in use in India in the very earliest times of which we have record. At the very dawn of history, we find the Indian people already well advanced in civilisation. They were at the time actually entering upon what is known as the manufacturing and commercial stage. Such a state of society implies exchange, and exchange implies the use of money.

Antiquity of
money in
India,

The great antiquity of Indian money is proved from various sources, the chief amongst which are (a) the most ancient accounts of the population and condition of society in India; (b) the Vedic writings; (c) the code of Manu; (d) the Buddhistic works; (e) numismatic and other archaeological remains; and (f) comparative philology.¹ Various kinds of coins made of gold, silver² and copper were in use; and many other substances, such as clay, lacquer, and

proved from
various
sources.

¹ *Vide* Del Mar, *History of Money*, p. 58.

² Historians tell us that silver was in the earliest period more valuable than gold.

shells (cowries) were also used for exchange. The Sovereigns had the prerogative of coining gold or silver, though adequate measures were rarely taken to prevent coinage by private persons.

During
Mahomedan
rule.

During the Mahomedan rule, a reform of the currency was undertaken, and several interesting monetary experiments were made. The rulers began to enforce the prohibition of coinage by private persons. Mahomed Tughlak entertained a new scheme of finance, in pursuance of which he at first debased the silver coins, and ultimately issued copper pieces, which were to circulate at the nominal value of silver coins. But this bold scheme, which was in reality a forerunner of the modern system of paper money, failed. The discovery of America and increased commercial relations with Europe led to an influx of silver into India in exchange for spices and gold; and Akbar the Great attempted to introduce a uniform standard, but his efforts did not fully succeed.

Under the
East India
Company.

In the seventeenth century, the East India Company also began to issue coins for use in their factories. During the remaining years of Moghul rule, coins continued to be struck at various places, and they were of different weights.

In the
Nineteenth
Century.

At the beginning of the nineteenth century, some parts of India (*e.g.* Madras) maintained a gold standard and currency; elsewhere, as in Bengal, a silver standard obtained, with gold coins in concurrent circulation; throughout India the coins, whether of gold or silver, differed in denominations as well as in intrinsic value, even within the same

district. In 1806 the Directors of the East India Company gave their approbation to the demand for a uniform coinage, and the first step that was taken was to replace the old miscellaneous coinages by four denominations of rupees and fewer kinds of gold coins. In their Despatch to the Governments of Bengal and Madras, the Directors observed that, while fully satisfied of the silver rupee being the principal measure of value and the money of account, they by no means desired to drive gold out of circulation. Nevertheless, in 1818, the rupee was substituted for the gold pagoda in Madras; and, in 1835, the rupee, which weighed 180 grains, and contained 165 grains of pure silver, was made the standard coin for the whole of British India. It was further enacted that "no gold coin shall henceforward be a legal tender of payment in any of the territories of the Company." The coining of gold mohurs (15-rupee pieces) was authorised by the Act of 1835, and in 1841 a Proclamation authorised officers in charge of public treasuries "freely to receive these coins." A few years later, however, the effect of the Proclamation was found embarrassing to the Government of India, on account of the extensive discoveries of gold in Australia, which resulted in diminishing its value in relation to silver. Consequently, in 1852, the Proclamation of 1841 was withdrawn. In 1864 the Government of India proposed that sovereigns and half-sovereigns coined at any Royal Mint in England, Australia and India, be made legal tender at the rate of one sovereign for 10 rupees, and that Government

currency notes should be exchanged either for rupees or for sovereigns at that rate. The Imperial Government, though unwilling to make the sovereign legal tender, accepted the second proposal.

India a silver-standard country till 1893.

India thus continued to be a silver-standard country.¹ Silver was received in the Indian mints without limit when tendered for coinage. Consequently, the value of the rupee in gold depended on the gold price of the silver bullion. The discovery of new silver mines and the demonetisation of silver by many civilised countries caused a heavy fall in the value of silver. From 1871 the exchange value of the rupee fell almost continuously, and in 1878 the Government of India suggested the adoption of a gold standard while retaining the silver currency, but the proposal was vetoed by the Imperial Government on the advice of a Departmental Committee. But the rate fell from 2s. in 1871 to 1s. 3d. in 1892. Although for internal purposes it did not matter much, yet in the trade relations of India with gold-standard countries it produced very bad results. The violent oscillations in the rate of exchange upset trade conditions and hindered the development of India by foreign capital.² Besides, the Government of India suffered

Fall in the value of rupee.

Consequences of the fall.

¹ Vide *Report of the Indian Currency Committee*, 1898, pp. 1 and 2.

² In 1892, the Bengal Chamber of Commerce represented to the Government that "it was impossible for men of business to feel any confidence in the future value of the rupee, and they believe that such a state of things restricts the investment of capital in this country and seriously hampers legitimate enterprise."

great loss in making remittances to meet its obligations in England. The number of rupees required for defraying the sterling expenditure in England increased with each fall in the exchange-rate of the rupee. The Government had also to pay compensation allowances to British officials to make good the loss which the latter suffered. This rendered necessary a considerable increase of taxation; and the violent fluctuations in the value of the rupee made the preparation of the Budget an exceedingly difficult task. In view of this embarrassment, the Government tried for a number of years to promote a system of International Bimetallism. But when their efforts became ineffectual they appointed, in 1892, a Committee, under the presidency of Lord Herschell, to consider the proposals submitted by the Government of India for the closing of the mints to the free coinage of silver, and for the adoption of a gold standard. In accordance with the recommendations of this Committee, the Coinage Act of 1893 provided for the closing of the Indian Mints to the free coinage of both gold and silver, the Government retaining the power to coin rupees on its own account. Notifications were also issued arranging for (i) the receipt of gold at the Indian Mints in exchange for rupees at the rate of 16d. per rupee, and for (ii) the receipt of sovereigns and half-sovereigns in payment of dues to the Government at the rate of Rs. 15 for a sovereign.¹ The

The Herschell
Committee.

¹ The Fowler Committee recommended that "the closing of the mints to the free coinage of silver should be accompanied by the announcement that, though closed to the public, they

net results of these measures were (1) that the exchange value of the rupee ceased to coincide with the price of silver, and (2) that silver ceased to be the standard of value, though it continued to be used as the chief material of currency. Gold, however, did not yet become legal tender.

The Fowler
Committee.

In 1898, another Committee was appointed, under the chairmanship of Sir Henry Fowler (afterwards Lord Wolverhampton). The Fowler committee reported in 1899. Their chief recommendations ¹

will be used by Government for the coinage of rupees in exchange for gold at a ratio to be fixed at, say, 1s. 4d. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same ratio" (*Indian Currency Committee's Report*, 1893, para. 156).

¹ "We concur with the Government of India in their decision not to revert to the Silver Standard. . . . Over four-fifths of the foreign trade of India is with Gold Standard countries, and for this reason it is desirable that India should have the same measure of value as those countries. . . . A further and certainly not less important consideration for a country like India is that an established Gold Standard is the simplest and most effective means of attracting capital. . . . We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home and in India. . . . Under an effective Gold Standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender. . . . In conclusion, we desire to record our opinion that the effective establishment of a Gold Standard is of paramount importance to the material interests of India.

were: (1) that the British sovereign should be made a legal tender and a current coin in India; (2) that the rupee should also continue to be legal tender to an unlimited extent; (3) that the sterling rate for the rupee should be fixed at 1s. 4d.¹; (4) that the Indian Mints should be thrown open to the unrestricted coinage of gold; (5) that the Mints should not be reopened to the free coinage of silver; (6) that, though the Government should continue to give rupees for gold, fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public; and (7) that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

The Government of India approved of these recommendations, and proceeded to give effect to them. In September, 1899, the sovereign was declared legal tender, but the rupee also continued

Government's
approval of
recommendations.

Not only will stability of exchange with the great commercial countries of the world tend to promote her existing trade, but also, there is every reason to anticipate that with the growth of a confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources. For the speedy attainment of the object, it is eminently desirable that the Government of India should husband the resources at their command, exercise a resolute economy, and restrict the growth of the gold obligations. . . ."

¹ The Committee were not unanimous in regard to this rate.

Adoption
of the Gold-
Exchange
Standard.

to be legal tender to an unlimited amount. In 1900, the then Finance Member to the Government of India announced in the Imperial Legislative Council that it had been decided to constitute a branch of the Royal Mint for the coinage of gold,¹ but the scheme was dropped after nearing completion in 1902. The existing monetary standard is what has now come to be known as the Gold-Exchange Standard, or, in other words, a gold standard without a gold currency.² Gold is not used by the people for ordinary transactions—it does not circulate to any considerable extent in the form of coins.³ The bulk of the metallic currency consists of coins which circulate at an artificial value far greater than their intrinsic value. The Government makes this currency exchangeable with gold in the international money market. This system, which was first advocated by Mr. A. M. Lindsay, has been adopted

¹ Sir C. Dawkins added : “ India has at length emerged from a period of transition in her currency, has reached a goal to which she has been struggling for years—has established a gold standard and a gold currency ” (Speech on the occasion of the Budget Statement, 1900).

² The gold-exchange standard should be distinguished from the “ limping standard ” which exists in France. The former differs from the latter in that (1) the Government of India keeps up in support of the exchange an elaborate mechanism, which is not required in France, and (2) in France there is a large circulation of gold, whereas in India the circulation of gold is very small.

³ The Government did their best to encourage the circulation of gold, but the effect was just the reverse of what they desired. Here was a practical illustration of the currency maxim that the popularity of a coin varies inversely with the anxiety of the possessor to part with it.

by the Government, not as a consistent whole, but piecemeal, as the result of a series of experiments.

The immediate object of the closure of the mints was to raise the value of the rupee by restricting the supply. In 1893, the rupee stood at 1s. 2½d. The Government set itself to the task of raising its value. In this, however, they were disappointed. The restriction of supply caused apprehension in the minds of the people, and brought into circulation the hoards of rupees, and the quantity which would otherwise have been used for artistic and ornamental purposes remained to swell the total silver currency. Rupees which were outside British India also naturally sought the Indian markets. The first result of the closure of mints, therefore, was that the rupee fell in value.¹ The Government stood out for a while, but in the end was compelled to sell rupees for about 1s. 1½d. During the next few years the policy of abstention from coinage was resolutely persisted in. But the value of the rupee continued to fall, and in January, 1895, it reached the minimum of 12½d. After that date it rose by gradual steps till in 1898 it stood at par. Since that time the value of the rupee has not fluctuated in value to any important extent, except for a brief period during the crisis of 1907-8, when its value fell considerably below specie point.²

Immediate effect.

Further fall in the value of rupee.

The rupee almost steady in value since 1898.

¹ This immediate result was foreseen by Professor J. S. Nicholson (*vide* his article entitled the "Indian Currency Experiment" in the *Contemporary Review*, 1893).

² In 1908, the exchange fell to 1s. 3¾d., but this marked fall was due to the combined effect of the Indian famine and the American monetary crisis.

Criticism. This currency experiment has been the subject of criticism of various sorts. The admirers of the system claim for it great and unqualified success.¹ Experience shows, they say, that the system is perfectly stable, as was found when it stood the severe test of the crisis of 1907-8; great developments of trade and industry have proceeded under the system; it has settled the finances of the Government and has made possible the remission of a considerable amount of taxation; and, lastly, the wisdom of the measure is proved by the fact that many other countries have followed the example of India in this matter.² Its detractors point to the inelasticity of the system as a great defect. In busy seasons an

¹ Prof. Keynes writes in the *Economic Journal* (October, 1914): "The Gold-Exchange Standard, based on a reserve in London, has enabled the Indian currency system to meet the crisis better than that of almost any other country. No moratorium has been declared, and the exchange value of the rupee has been maintained throughout between the gold points. Of no other important country can this be said."

² The Gold-Exchange Standard has been adopted by the Philippines, Mexico, and the Straits Settlements. The currency systems of Russia, Holland, Japan, and Austria-Hungary also are not very different from the Indian system. The Currency Commission (1914) point out that, "in those countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation, whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home, but in London, Paris, and other monetary centres, just as India's Gold Standard Reserve is held in London" (*Report*, para 51).

increased currency is required, which, in a dull season, leads to an inflation of the currency from a want of automatic regulation, and thus raises prices. They hold that it is advisable for the Government to have to do as little as possible with the currency. Further, they contend that during the crisis of 1907-8 the system was almost on the verge of a collapse and that in a graver crisis it may completely break down.¹ As for the remission of taxation, they argue that there has really been none, for the remitted taxation represents the additional amount that was taken from the taxpayers by an artificial appreciation of the rupee.² "There seems apparent," says one writer, "in the policy now pursued a disposition to secure tactical advantages at the expense of the strategy necessary to ensure permanent success."³

¹ The following question by the Chairman of the Commission and the answer given by Lord Inchcape are interesting in this connection :

Q. 10,185. You do not think there is a danger that in some severe crisis when there has been, say, not only famine in India, but a severe monetary disturbance in London, you would find it difficult to realise your securities at anything but a ruinous price ?

A. Things then would be very bad indeed. You would all be "bust" up, if it came to that.

² The amount of taxation remitted between 1898 and 1910 was 5 crores of rupees, and this, according to the late Mr. G. K. Gokhale, was the additional amount taken from the people by means of the appreciation of the rupee (G. K. Gokhale's Budget speech, 1910).

³ An article entitled "India's Monetary Condition" in *Economic Journal*, December, 1910.

Alternatives
suggested :

Silver
Currency,

Bimetallism,

Gold Standard
in entirety.

Arguments
for.

Now, if it be admitted that the system is not perfect, what are the alternatives to it? Some people, whose number is exceedingly small, have advocated a return to the old system; but to do so will mean a recurrence of the state of affairs which made the adoption of the Gold-Exchange standard necessary. Bimetallism¹ is another alternative, but it can be successful only if it is accepted by at least a majority of the civilised nations, which is very unlikely to happen.

The third alternative is the adoption of the Gold Standard in its entirety, and the advocates of this system consider it desirable that the Government should actively encourage the circulation of the sovereign. The chief arguments adduced in favour of such action have been thus summarised by the Finance and Currency Commission :

(i) That gold is a more convenient and portable medium of circulation than the rupee.

(ii) That a gold currency is a necessary step towards what may be regarded as the ideal currency, viz., paper backed by gold in reserve.

(iii) That some prestige attaches to the possession of a gold currency, whereas a silver circulation is the mark of less progressive peoples.

(iv) That a large amount of gold in circulation

*a new rational
inherent would
be strengthened
by a gold standard.*

¹Prof. J. S. Nicholson, in his *Money and Monetary Problems*, has tried to prove that bimetallism is both advantageous and practicable. On the other hand, an eminent authority like the late Sir Robert Giffen held that bimetallism was unattainable, and, if attained, would be dangerous.

is a strong, and, in the view of some people, the only adequate support for exchange.¹

(v) That the constant mintage of fresh supplies of rupees is objectionable, and would be obviated by an increasing circulation of sovereigns.

(vi) That until India has a gold currency in active circulation, India will continue to possess an artificial and managed currency.

(vii) That India should be encouraged to absorb gold in order to protect the world in general from a further rise of prices due to the greatly increased production of gold.

To these arguments the objectors (including the majority of the Commission) reply as follows:

Answers
to such
arguments.

(i) The first argument is valid only in so far as large payments are concerned, but even there notes are preferable to gold.

(ii) History lends no support to the second argument, and it is not impossible to reach the ideal system of currency without taking the intermediate step of a gold currency.

(iii) The third argument is the result of a confusion in the minds of some people between a gold standard and a gold currency. In internal circulation, a widespread use of cheques is the most progressive system; for the cheaper the money-material, the greater is the economy in the use of the precious metals.

(iv) As for the fourth, the opinion of eminent

¹Most of the advanced countries have adopted the gold standard, China being now practically the only civilised country with a silver currency.

economists and financiers, as well as the experience of the most advanced countries, is against this view; as a matter of fact, the only support for exchange in a monetary crisis has always been found to lie in the gold reserve of the banks and not in gold in the pockets of the people.¹

(v) The fifth argument is met by the reply that rupees are generally used for small payments, and a larger circulation of sovereigns will not obviate the need for the mintage of fresh rupees to any appreciable extent; on the other hand, gold coins will prove a very formidable rival to the note issue, which will be most undesirable.

(vi) In regard to the sixth argument, it may be urged that a "managed" system is not necessarily a bad system, and that it is not possible for the Government of India to manipulate the currency for their own purposes, for they can add to the active circulation of the currency only in response to public demands.

(vii) The last argument is not one of any importance, for the extent to which India should use gold must be decided solely in accordance with India's own needs and wishes, and it would be manifestly unjust to force gold coins into circulation in India

¹ "Gold wanted for exportation is almost invariably drawn from the reserves of banks, and is never likely to be taken from the outside circulation while banks remain solvent" (J. S. Mill, *Political Economy*, bk. iii. ch. 22).

"We only have as an effective circulation that which is required for the daily wants of the people. You cannot tap that to any extent so as to increase your central stock of gold" (Lord Goschen's Speech at the London Chamber of Commerce, 1891).

on the ground that such action would benefit the gold-using countries of the world.

The conclusion at which the Commission have arrived on this point is that gold in circulation is "wasteful," and "that it would not be to India's advantage to encourage such circulation."¹ This, however, does not dispose of the question of the adoption of a Gold Standard.

Chamberlain
Commission's
conclusion.

The advocates of a gold currency demand the establishment of a Gold Mint in India. In March, 1912, Sir V. D. Thackersey moved a resolution in the Imperial Legislative Council urging that the Indian Mints be opened to the free coinage of gold and that distinctive Indian coins be issued.² A vigorous agitation has also been carried on by Mr. M. de P. Webb and his supporters to secure the same object.³

Suggested
Gold Mint
in India.

¹ Sir James Begbie, however, in his *Note of Dissent* says: "The true line of advance for the currency policy is to discourage an extension of the token currency by providing facilities for the distribution of gold when further increases in the currency becomes necessary," and he advocates the issue of a suitable gold coin from an Indian mint (*Report*, p. 90).

² The Finance Member, Sir Guy Fleetwood Wilson, in his reply, expressed his sympathy with the proposal, but declined to commit the Government of India to any particular line of policy.

³ Mr. M. de P. Webb says: "Without an Open Mint, the manufacture of money depends upon the judgment or idiosyncrasy of some individual or individuals holding office under Government. And with the result that, instead of being automatic, in response to the general demands of the public, the manufacture, or delay in manufacturing, or non-manufacture of money is liable to be inspired by the private or class requirements of a few influential merchants or big money dealers. Thus (1) the foreign exchanges, (2) the current rates of interest, and

The Chamberlain Commission, after fully discussing the question, remark: "We cannot recommend on its merits the establishment of a gold mint in India. But if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection in principle either from the Indian or the Imperial standpoint, provided always that the coin to be minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. If, however, the final decision be against the opening of a gold mint, we recommend that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms." If a Gold Mint be established, it will satisfy the advocates of a gold standard for India, for there is no demand at present to go any further. With a Gold Mint the currency system of India will be at once assimilated to those of the other civilised countries, and the future development of the system may be left to future circumstances as they arise.

(3) the general level of prices may all be influenced by withholding money when it is badly wanted, or issuing it in excessive amounts when there is no real widespread demand for it. The defects and grave abuses inseparable from State management have been so widely recognised, that closed, State-managed Mints have been everywhere abandoned long ago. India, Persia, and China are now the only prominent relics of bygone ages in these matters. It seems hardly fit that India, with its vast internal and external trade, should any longer keep company with Persia and China in their pathetic lack of monetary system " *Advance, India!* (p. 35).

To keep up the Gold-Exchange Standard and to prevent great fluctuations in the value of the rupee, two things are essential: firstly, that importers of gold should obtain rupees for their gold; and secondly, that when gold is required for the purpose of remittance, the exporters should get it in exchange for silver. To ensure this, the Government sells and buys rupees in India and in London at the rate of 1s. 4d. the rupee *plus* or *minus*, as the case may be, the approximate cost of transport. And for these transactions, a Reserve is kept partly in London and partly in India.

Devices
adopted.

In accordance with a recommendation made by the Fowler Committee it was decided that, with effect from the 1st of April, 1900, the net profit from the coinage of rupees should not be treated as revenue, but should be held as a special reserve.¹ Up to 1906, practically the whole amount was remitted to England and appropriated to the purchase of British Government Securities, the interest realised being added to the fund and invested; but in that year it was decided that a portion of the Reserve should in future be held in silver in India. In 1907-08 and 1908-09, in consequence of a further decision, half the profits on coinage were to be applied to capital expenditure on railways, and about £1,100,000 was actually diverted for the purpose; but this decision was soon reversed.

Gold Standard
Reserve.

¹ There is a tendency in some quarters to regard the Gold Standard Reserve as an asset against the Public Debt of India. But this view seems to be unsound and erroneous.

Composition. On the 31st March, 1913, the Reserve stood as follows :

	Crores (about).
Securities (at market value)	£15,945,669 = 24
Money lent at short notice	1,005,664 = 1½
Gold deposited at the Bank of England - -	1,620,000 = 2½
Silver in Indian Branch	4,000,000 = 6
Total	£22,571,333 ¹ = 34

Location and
Composition
criticised.

The location and the composition of the Gold Standard Reserve have given rise to much criticism. It has been suggested that the whole of the Reserve should be held in India and not in London, in order to prevent India's financial interests from being endangered in the event of a monetary crisis in England. The usual reply to this suggestion has been that the necessity for the use of the Reserve will arise in London, and it would involve the expenses of frequent transfers to hold it in India. Another objection is to a large portion of the Reserve being held in Securities which are not realisable in times of need without much loss; but, on the other hand, it may be said that the interest accruing from the investment is likely to more than counterbalance the loss due to a depreciation in the value of the stocks in a crisis. The third objection is to the lending of considerable sums out

¹ In the interval between the 31st March, 1913, and the 31st October, 1914, the aggregate of the Gold Standard Reserve increased to £25,837,000. If the entire profits of the coinage of rupees are allowed to accumulate, we should have a Reserve of about £40 millions in ten years' time.

of the Reserve to borrowers in London. If any portion of the Reserve (it is urged) can be safely lent out to borrowers for short periods, it should be done in India where there is much dearth of capital. To this reasonable cry of "India's money for India," no exception can be taken. Lastly, it is contended that no good reason exists for holding a portion in silver, the Reserve being required for the purpose of ensuring the stability of the sterling value of rupees.

The Chamberlain Commission suggested that the gold portion of the Reserve should be immediately increased to £10,000,000 and that the greater part of the Securities should be such as are for early redemption. By the 31st October, 1914, considerable changes occurred in the composition of the Reserve. The amount of the gold held in London at that date was £2,300,000 and that in India was £6,233,000; and the total of Paper Securities was £13,371,000.

Commission's
suggestions.

Gold Standard
Reserve on
31st Oct., 1914.

As for the amount of the Reserve which will be an absolute guarantee against any possible crisis, it is not possible to suggest a definite figure. As the Commission point out, "the Reserve is required not merely to meet the 'home charges' of the Government of India at a time when an adverse rate of exchange prevents the free sale of Council drafts, but also to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point. On the other hand, the Reserve is not required to provide for the conversion into sovereigns of the rupees in circulation

Amount of
Reserve
essential.

in India. Gold is world's money, and India, like other great countries, needs gold less for internal circulation than for the settlement of external obligations when the balance of trade is insufficient to meet them. That being so, the aggregate amount of rupees in circulation has only an indirect bearing on the question of the Gold Standard Reserve. It is true that the Reserve is built up out of the profits on the coinage of rupees, but its object is not to secure the convertibility on demand of the whole of the rupees in circulation but only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling. This being the purpose of the Reserve, its amount depends not so much upon the amount of rupees at any time in circulation as upon the growth of India's trade and the extent of the deficiency which adverse seasons or circumstances may at any time be reasonably expected to produce in the country's power to liquidate immediately its foreign obligations."¹ As this is incapable of being defined, all that can now be safely said in this regard is that it would be advisable for the Government to go on accumulating the Reserve for several years to come.

Reform of
coinage.

In 1896, a reform of the coinage was undertaken. The "1835"-rupees ceased to be re-issued, and in 1901-2 similar orders were given with respect to "1840" rupees. In 1906, bronze coins were issued

¹ *Report of the Chamberlain Commission*, pp. 20, 21.

as tokens for small transactions, and they are now gradually superseding the old copper coins. In 1909, one-anna nickel pieces began to be coined; and it is now in contemplation to issue half-anna nickel coins.

Under the Acts of 1839, 1840, and 1843, the Presidency Banks of Bengal, Bombay, and Madras were authorised to coin Notes payable on demand. But the circulation of the Notes was practically limited to the Presidency towns. An Act of 1861 repealed the previous Acts and provided for the issue of a Paper Currency through a Government Department by means of Notes of the Government of India. Since then, there have been no Bank Notes, the Government having retained a monopoly of Note Issue.

Under the Paper Currency Act, 1905, Paper Currency Notes of the following denominations, viz., Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000, are issued to the public. They are issued without limit in every Paper Currency office against rupees or gold. There are eight circles of issue having their headquarters at Calcutta, Cawnpore, Lahore, Bombay, Karachi, Madras, Calicut, and Rangoon respectively; and until 1910, the Notes were legal tender only within the particular circle from which they had been issued. The Government were not legally bound to cash any Notes outside their circle of issue; but as a matter of fact, they were cashed in any Government Treasury (if they were not for very large sums), and also by the Presidency banks. The reason for this restriction was that if Notes were cashable in all circles

Paper
currency.

Denomina-
tions of Notes.

Circles of
issue.

the cost of carrying rupees from one part of the country to another would fall on the Government, and a considerable reserve would have to be kept at each centre to meet the demands for cash.

The
universalising
process.

In 1909, the five-rupee Note, which had previously been made legal tender throughout India, was declared to be legal tender in Burma. The growing popularity of the universal five-rupee Note led the Government to further universalise the Paper Currency, and in 1910 the ten- and fifty-rupee Notes were made universal. The hundred-rupee Note was also declared universal in 1911.¹

Volume of
Paper
Currency.

Composition
of Paper
Currency
Reserve.

The law requires that a Paper Currency Reserve shall be held against the Notes equal to their full value. Securities of the Government of India and the British Government may be held as part of the reserve up to a limit of 14 crores of rupees, of which the British Government securities may not exceed 4 crores; the remainder must be held in gold and silver coin or bullion. On the 31st of March, 1913, the value of Notes in gross circulation was Rs. 68·97 crores, and that in net circulation, 56·29 crores. The composition of the Paper Currency Reserve on the same date was as follows:

Gold in London	-	-	-	-	9·15 crores.
Gold in India	-	-	-	-	29·37 „
Silver in India	-	-	-	-	16·45 „
Securities of Government of India	-	-	-	-	10·00 „
Securities of British Government	-	-	-	-	4·00 „
Total	-	-	-	-	<u>68·97</u> „

¹ The Chamberlain Commission have recommended the immediate universalisation of the 500-rupee note (*Report*, p. 26).

The Indian system of Note issue was modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and the restrictions were provided with the object of preventing the abuses attendant on the issue of notes without the backing of a metallic reserve. But the expansion in the trade and commerce of India has made the need for a more elastic currency increasingly felt, and the Chamberlain Commission have proposed that "the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries *plus* one-third of the net circulation for the time being." They have also suggested that temporary investments may be made, or short-period loans granted out of the Reserve "so long as the cash portion of the Reserve does not fall below two-thirds of the net circulation." The location of a portion of the Reserve in London has formed the subject of adverse criticism. As the object of the Reserve is the redemption of Notes in India, there seems to be no valid reason why the whole of it should not be held in India. The view that the Paper Currency Reserve should be held as a second line of defence for the support of exchange seems hardly to be sound.

Suggested changes.

Location.

The amalgamation of the Gold Standard Reserve and the Paper Currency Reserve has frequently been suggested. But as the objects of the two Reserves are different, it would certainly be wise to keep them separate.

Amalgamation not desirable.

It may not be out of place to briefly describe here the mode by which remittance is made from

Council Bills.

India to England. The Secretary of State for India requires money in London for meeting the expenses of his office and various other charges; and many merchants in England want to send money to India for the purchase of Indian produce for export. The whole transaction is easily made by means of Council Bills, which supersede the necessity of transferring and re-transferring bullion, and thus save the loss in the shape of payments for freight and insurance which would be incurred if the remittances were made by shipments of gold. Every Wednesday the Secretary of State offers for sale through the Bank of England bills on the Indian Government authorities at Calcutta, Madras, and Bombay, and invites tenders from those who wish to remit money to India. The notice states the limit which the aggregate amounts will not exceed. The Secretary of State does not bind himself to allot the whole amount mentioned in the notice, and as a matter of practice does not accept any applications at prices lower than 1s. $3\frac{2}{3}\frac{1}{2}$ d. If there is a brisk demand, the prices realised are comparatively high; if the demand is dull, the bills are sold at comparatively low rates. The maximum price is fixed by the "specie point," that is to say, the point up to which it is cheaper to buy Council Bills than to ship gold. The bills are sent by the buyers to India, where they are cashed by the Indian Government. Those merchants who want to avoid the delay of sixteen to eighteen days which the bills take to reach India can purchase Telegraph Transfers, for which they have to pay

Telegraphic
Transfers.

slightly higher rates.¹ "Intermediate" or "special" Bills and Transfers can be obtained on other days of the week at a price not less than $\frac{1}{2}$ d. higher than the lowest price charged on the preceding Wednesday.

The practice of drawing funds from India to meet the Home Charges by means of bills of exchange on India was inherited by the India Office from the East India Company; and it was the large surplus of India's net exports over her net imports which made the system both possible and profitable. With the closing of the mints to silver in 1893, the system has assumed new importance, and has become "the central feature of the machinery by which the Indian finance and currency system is at present managed." It was by a temporary cessation of the sale of Council drafts that the authorities first tried to force the exchange value of the rupee to 1s. 4d. Since then, the work of the system has been extended in more than one direction, and it has been utilised in effecting frequent changes in the location and disposition of the resources of the Indian Government.² How far the extended scope of the system has been beneficial or otherwise to the interests of India, will be discussed in a later chapter. It will suffice to mention here that during the year 1913-14, the

Origin and
present scope
of the system.

¹ The price charged for Telegraphic Transfers is ordinarily $\frac{1}{2}$ d. higher than that charged for Bills, but when the Calcutta or Bombay Bank Rate exceeds 8 p.c., the Secretary of State charges $\frac{1}{6}$ d. more than the price of Bills.

² Vide *Report of the Chamberlain Commission*, p. 42.

Secretary of State sold bills for over 45 crores, though he required only about 31 crores for his expenses.

2. CREDIT

The indigenous
system.

Credit is an indispensable factor in business. In the towns, there are Indian bankers or *shroffs* who generally do banking business on a small scale. They finance nearly the whole of the internal trade of India, but they rarely, if ever, discount European paper and never purchase foreign or sterling bills. They do, sometimes, lend money on Government paper or similar securities, but the bulk of their business consists in the discounting of traders' *hoondees* and in advances to cultivators. In the villages, as we have seen, the *mahajan* lends money to the agriculturists and other people of the neighbourhood. The petty *mahajan* knows the affairs of his constituents intimately, and the possession of this local knowledge gives him a great advantage over a big banking concern. Loans are taken by means of hand-notes (*khuts*) or pawns of jewellery, or, as is sometimes the case, by mortgages of property. The aggregate of the transactions of the *mahajan* and *shroffs* amounts to an enormous sum.

The Presidency
Banks.

The larger banking institutions are constituted on a European model. The most important of these are the Presidency Banks. The Presidency Bank of Bengal was established in 1806, that of Bombay in 1840, and the Bank of Madras in 1843. They were originally semi-Government institutions. They

enjoyed the privilege of issuing bank-notes, which privilege was withdrawn by the Act of 1861. At present, the Government have no direct connection with the Presidency Banks.

The constitution and the management of the Presidency Banks are regulated by a number of Acts, the most important of which are the Acts of 1867, 1876, and 1907. These Acts prescribe the kind of business which they can undertake. The restrictions which the Acts impose on the Presidency Banks have, besides considerably curtailing their loan business, the effect of preventing them from dealing in foreign exchanges (such as the buying of Council Bills), or otherwise employing their capital out of India.¹

Restrictions on
their business.

In accordance with the provisions of agreements into which the Government of India have entered with the Presidency Banks, they act as bankers for the Government, paying and receiving money on its

They are the
State bankers.

¹ The principal restrictions have been thus summarised by Prof. J. M. Keynes: "(i) The Banks may not draw, discount, buy, or sell bills of exchange or other negotiable securities *unless they are payable in India or in Ceylon*; this restriction has cut off the Presidency Banks completely from dealing in sterling drafts or any kind of foreign exchange; (ii) they may not borrow, or receive deposits payable, outside India, or maintain a foreign branch or agency for this or similar purposes, and they are thus prevented from raising funds in London for use in India; (iii) they may not lend for a longer period than six months; (iv) or upon mortgage or in any other manner upon the security of immovable property; (v) or upon promissory notes bearing less than two independent names; (vi) or upon personal security; (vii) or upon goods, unless the goods, or the title to them, are deposited with the Bank as security" (*Indian Finance and Currency*, pp. 201, 202).

behalf and managing the public debt; they receive in return a fixed annual payment and a commission on the amount of the public debt which they manage. The Government also undertake to keep a minimum balance at each Bank, or, failing this, to pay interest on the deficiency.¹

Extent of business. On the 31st of December, 1913, the extent of business of the Presidency Banks was as follows: ²

	B. of Bengal.	B. of Madras.	B. of Bombay.
Paid-up capital	£1,333,333	£500,000	£666,667
Reserve	1,273,333	486,667	706,667
Public deposits	2,009,830	577,104	1,337,448
Other deposits	12,166,356	5,373,107	6,771,129

Deposits. These banks have thus between them the use of nearly 6 crores of public money, but the bulk of their funds consists of private deposits, the aggregate of which amounts to 36·5 crores. The total of these reserves is about one-twelfth of their total deposits. The private deposits have increased from 6·4 crores in 1870 to 36·5 in 1913.

Branches. The Presidency Banks have their branches in different parts of the country. These are under the direct control of the central offices, and their funds are included in those of the head offices.

Exchange Banks. Next in importance to the Presidency Banks are the Exchange Banks, which are concerned mainly with the larger operations of commerce, and one of

¹ Until 1876, the year in which the Government Reserve Treasuries were established, the whole of the Government balances were held with the Presidency Banks. Since that year only a portion has been held with them.

² Vide *Statistical Tables relating to Banks in India and Moral and Material Progress of India*, 1914. For details see Appendix J.

the most important of their functions is to finance the export trade. They buy and sell bills of exchange in the Indian as well as in the foreign markets. Some of them have offices in different parts of the world. The shareholders of these banks are mostly Europeans, but Indians deposit their moneys with them, on which they get interest at low rates. The most important of such banks are the Chartered Bank, the National Bank of India, the Mercantile Bank, the Delhi and London Bank, and the Eastern Bank. Some of the other larger Asiatic banking institutions also, such as the Hong-Kong and Shanghai Corporation, the Yokohama Specie Bank, the Russian-Chinese Bank, the International Banking Corporation, and the Deutsche-Asiatische Bank, do some amount of Indian business.

The Indian Joint-Stock Banks do their business with relatively small amounts of capital. Some of them are under European supervision, but most of them are managed by Indians themselves. There was a considerable increase in their number between 1906 and 1913, and the total amount of their business also expanded a great deal. At present their business is mainly confined to the financing of the internal trade of the country; but it is to be hoped that they will extend their operations to foreign exchange, and thus take advantage of foreign capital. The number of banking concerns registered under the Indian Companies Act on the 31st March, 1913, was 513. But the number of those which can be called Banks in the proper sense of the term was exceedingly small, and more of them are

Indian Joint-
Stock Banks.

wanted; an augmentation of the capital of existing Banks is also essential.

Bank failures.

Unhappily, the recent bank failures have served as a severe check to the growth of Indian banking. The crash came with the failure of the People's Bank in the Punjab, with its 72 branches in the different parts of the country and its crore and a quarter of deposits. Next failed the Credit Bank of India, and the Indian Specie Bank too—the only purely Indian Bank which had a branch in London—was unable to weather the storm. These were followed by 13 other failures. Various causes contributed to bring about the crisis. The management of some of the banks was in the hands of men who had very little experience of this kind of business, and they often embarked on speculative ventures of a dangerous character. In some cases, the banks had high-sounding titles, but their paid-up capital was very small; they lent money on insufficient security; and the proportion of their cash reserves to their liabilities was exceedingly small. A further cause was the lack of support from well-established banks at a time of stress. The failures brought misery to large numbers of poor men and women; and future bankers will do well to learn from the experience of the past and avoid mistakes such as those which led to the recent crisis. But it will be a misfortune if these failures have the effect of permanently hindering the growth of Indian banking. "Credit," as the American jurist-statesman, Daniel Webster, puts it, "has done more, a thousand times, to enrich nations

Necessity for
growth of
credit.

than all the mines of all the world"; and, in the words of the eminent economist, Mr. McLeod, "it is by the cautious and gradual extension of Banking and the development of Banking habits among the people that the future progress of India in wealth and prosperity is to be promoted."¹

The Deposits of the three Presidency Banks increased from 25·15 crores of rupees in 1904 to 42·37 crores in 1913, and their Cash Balances increased from 10·22 crores to 15·38 crores. During the same period the Deposits in India of the Exchange Banks increased from 16·32 crores to 31·03 crores, and their Cash Balances from 4·94 to 5·88 crores. The Indian Joint-Stock Banks (with capitals of above 5 lakhs) increased their Deposits from 11·51 to 22·59 crores, and their Cash Balances from 1·44 to 4 crores. It will thus be seen that while the Deposits of the Exchange Banks have increased enormously of late years, their Cash Balances have not grown in the same proportion. This fact not unnaturally raises doubts about the soundness of the financial policy pursued by some of these banks.²

Progress of
banking
capital.

¹ H. D. McLeod, *Indian Currency*, p. 53.

² Mr. J. M. Keynes rightly remarks in this connection: "Two facts emerge from this table with great plainness—the rapid rate at which in recent years Exchange Banks have been able to increase the funds raised by deposit in India herself, and the slow rate at which they have thought fit to increase their Indian balances." And again, "in such a country as India, where banking is ill-established and hoarding more than a memory, the proportion held in reserve seems somewhat lower than perhaps it ought to be" (*Indian Currency and Finance*, p. 216).

The Govern-
ment itself a
great banker.

The Government itself is also a great banker. Not only does it hold its balances and control the currencies and exchange, but it holds in deposit moneys from the people in its Post Offices and pays interest on them. The total amount of deposits in the Post Office Savings Bank was on 31st March, 1911, nearly 19 crores of rupees. No special balances are held by the Government against these deposits, they being regarded as part of the Unfunded Debt. The Government also advances loans to cultivators for agricultural improvements and the purchase of land, cattle, etc. This is done on a large scale in times of famine and scarcity. The Co-operative Credit Societies, started under the auspices of the Government, are institutions similar in object and scope to the Agricultural Banks of Europe.

Banker's
business.

A banker utilises his capital and a considerable proportion of his deposits in making advances. Such advances are generally made either by means of an overdraft or a definite loan against security, personal or otherwise, or on a cash credit bond providing for a fluctuating balance within a certain definite amount. Besides, they invest in the discounting of commercial bills and in loans to stock-brokers and others against Negotiable Securities. Loans made on mortgage or against securities form the chief business of the Indian Joint-Stock Banks.

Credit
instruments.

The instruments of credit in India are governed by the Negotiable Instruments Act. A Negotiable Instrument means a promissory note, bill of exchange, or cheque. A promissory note is a

written unconditional promise made by one person to pay another a certain sum of money. A bill of exchange is defined as an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money to, or to the order of, a certain person or to the bearer of the instrument. A cheque is a bill of exchange drawn on a banker and payable on demand. Negotiable Instruments may be either inland or foreign. Those drawn or made in British India and made payable in, or drawn upon, any person resident therein, are called inland instruments; those not falling within this definition are foreign instruments. Besides these, some other instruments, passing from hand to hand by delivery, have by the system of trade acquired a quasi-negotiable character.

We have already seen that the maximum rate of Bank Rate. interest in each year is very high in India—sometimes rising to 11 or 12 per cent. This high rate, however, prevails only for a short period, namely, the winter months, when the exporters need money for purchasing agricultural products. It has often been suggested that the State can and should help in reducing the rate of discount on such occasions. It usually happens that, at the time of the greatest stringency of the money market, the coffers of the Government are full. If they could lend considerable sums out of the stocks of rupees in the Paper Currency Reserve and the Cash Balances, an appreciable relief would be given to the money market.

CHAPTER XI

CONSUMPTION

Relation
between con-
sumption and
production.

CONSUMPTION is the aim and object of production. We cannot think of the production of wealth without having in mind the end for which it is produced. The connection between production and consumption is thus seen to be very intimate. This intimate relation is also perceived in another way. Production is made possible only by consumption, on which, therefore, the quality and quantity of production must necessarily depend to a large extent.

Standard of
life

varies in
degree,

Consumption of commodities is determined by the standard of life which a particular person fixes for himself at any given period of time, or rather which is fixed for him by his circumstances. This standard of life not only differs among individuals, but from class to class, and according to differences of occupation. In countries like England and the United States, these differences are very great; but so far as the elementary facts are concerned, the standard is very much the same for all classes. In India, on the other hand, considerable differences are found in regard to even the most elementary facts of life.

The standard of life, again, differs not only in degree, but in kind. The consumption of some commodities, for instance, may give physical comfort, but may be detrimental to moral well-being. It would be a narrow view of Economics to confine the standard within the limits of physical needs. From our standpoint, it would be more desirable to take the term to include higher ends. We will follow Mr. Marshall, who says: "Let us take the term the Standard of Life to mean the Standard of Activities and Wants. Thus an increase in the Standard of Life implies an increase of intelligence, energy and self-respect; leading to more care and judgment in expenditure, and an avoidance of food and drink that gratify the appetite, but effect no strength, and of ways of living that are unwholesome physically and morally."

According to this view, then, the most expensive standard is not necessarily the highest, and India will not be any the better or happier for getting a larger amount of what many people wrongly term 'refinement.' To judge whether a standard is high or low, we have to enquire whether or not it conduces to the welfare, moral and material, of the persons who have adopted it. The best consumption of wealth is that which results in the greatest benefits to individuals and to society. It is often said that the customs, the social institutions, and the religious and moral ideas of the people of India favour a standard of living which is comparatively low. This is true in a sense; but it is not in itself a thing to be regretted. We must,

and in kind.

The most expensive standard not necessarily the best.

The Indian standard.

however, distinguish between the standard of life which is the aim of the religious teachings and moral precepts, and that which results from economic circumstances beyond the control of these teachings and precepts.

Wants and activities.

In recent years, many artificial wants have made themselves felt in India. It is often held that an increase of wants leads to an increase of activity. This, however, is true only of the first stages of civilisation. After a certain point, a multiplication of artificial wants is not conducive to the leading of a good life. Economics is based, it is true, on the satisfaction of wants, but that does not imply that man should go on creating wants so that he may have the pleasure of satisfying them. Certain wants present themselves to man, and they must be satisfied; but ever-increasing wants and ever-increasing effort to satisfy such wants do not conduce to the well-being of society. The real test of civilisation is not the growth of wants, but the growth of healthy activities.

Classification of articles of consumption.

Economists divide articles of consumption into necessities and luxuries. Necessaries, again, are subdivided into necessities for existence and those for efficiency. There are, besides, certain articles which have come to be regarded as conventional necessities. Although there are no means by which each of these classes can be rigidly marked off from the others, yet this classification is useful and convenient. It must be remembered, however, that articles which are necessities to some may be luxuries to others.

Statistics of consumption.

Reliable statistics of Indian consumption are not

available. The average consumption per head of the taxable commodities may be ascertained by dividing the total of such commodities by the number of the population. But as these commodities are not the most important, they do not throw much light on the economic condition of the people. Besides, a computation of the *per capita* consumption, however useful for comparison with other countries, would not give us any knowledge of the condition of the different sections of society. It is very much to be desired that a thorough study of consumption in typical towns and villages will be undertaken by some enthusiastic persons on the lines of work of Charles Booth, Seeböhm Rowntree, and others.

In order that we may make progress towards a higher life, the physical needs—the primary wants, as they are called—must be satisfied first. The primary wants are those of food, clothing, and shelter. We have already seen that the average income in India is very small; consequently, a large majority of the people are hardly supplied with the barest necessities. As Sir William Hunter observed many years back, more than one-sixth of the people go through life on insufficient food. Sir Guy Fleetwood Wilson, lately Finance Member of the Government of India, said: “A large proportion of the people are poor, an appreciable proportion very poor.” As a matter of fact, a considerable proportion of the people are below what is known as the “primary poverty” line, and large numbers of persons hardly get one full meal a day. It is

The first necessities of life:

Food.

Views of eminent officials.

doubtful if all persons belonging to the "middle class" get a sufficient quantity of nutritious diet.

Clothing.

Clothing is an item of less importance in India than in Europe and America. In summer, a very small amount of clothing suffices; but in winter, warm clothing of course becomes essential, especially in Northern India, where the winter is severe. But the poor people can rarely afford to supply themselves with warm clothing, and deaths from cold are often reported. The middle-class people perhaps spend more on their dress than they ought to; but in order to find money for their dress they have to curtail their expenditure in other and more useful directions. The richer classes can afford to indulge in a little luxury in the matter of dress; but they represent only a microscopic minority of the total population.

House-room.

As for house-room, the great bulk of the people live in mud huts with thatched roofs; and not even all members of the middle class succeed in finding accommodation which would be considered decent in Europe and America.

Effect of
inadequate
consumption
on production.

The primary wants are necessities for existence. An insufficient supply of these may just enable a person to keep body and soul together, but cannot but be detrimental to his physical and moral welfare. The effect of inadequate consumption on production is immense. Ill-fed, ill-clad, ill-lodged, the mass of the people of India lead a dull and dreary existence. The want of proper sustenance impairs the vigour and vitality of the people, who fall easy victims to the attacks of various kinds of disease. Having no reserve

to fall back upon in difficult times, they suffer untold misery whenever there is a slight disturbing cause, such as a drought or a failure of the crops. The children of weak and unhealthy parents become weaklings, and, being themselves ill-fed and ill-bred, swell the numbers of the worthless members of society. Thus the physical deterioration of the people goes on increasing from generation to generation; and with the progress of physical degeneration, their moral stamina also tends to grow less and less strong. Consequently, the efficiency of labour as a factor in production has a progressively rapid tendency to diminish.

The stinting of necessities is always economically wasteful; and there can be little doubt that production in India can be greatly increased by increasing the consumption of the people. When, however, we advocate an increase in consumption, we mean increased consumption of those goods which conduce to the health and vigour of the people. In food, nutrition should be the main purpose, and the desire to prefer pleasant to wholesome food should be discouraged. Indulgence in drink and narcotics means not only the waste of money spent on them, but an injury to body and mind. In matters of dress, furniture and dwellings, health, happiness, and morality—not luxury—should be the objects of attainment. Economically speaking, luxury is unproductive, and the demand for luxuries misdirects capital and labour, and leads to waste. In the words of a well-known economist, the consumption of luxuries, far from augmenting

Increased consumption necessary,

but only of wholesome articles.

our capacity, makes us "at once less wealthy, less healthy, and less wise."¹

Necessaries
of a higher
kind: educa-
tion, sanita-
tion, leisure,
recreation.

So much about the physical necessities. But there are necessities of a higher kind which are of as much importance as those we have been discussing, and the failure to provide for which is the main cause of the present backward condition of the country. These needs are for education, sanitation, leisure, and recreation. The economic value of education is too well known to be disputed. By increasing the intelligence of the labourer, education adds greatly to his productive efficiency. Sanitation is a question of vital importance in a country like India. Adequate rest after work is necessary in order to prepare the mind and body for further work. Recreation claims the attention of the economist as it may have the greatest influence on happiness and morality. As a celebrated economist has said, "A people may be dulled because of too little, enervated because of too much, degraded because of ill-chosen amusement."²

Considerable
increase of
income
needed.

In order to provide for the satisfaction of all these needs, a considerable amount of income is required. The present income of the bulk of the people, as is evident, is insufficient for an adequate supply of even the first necessities of life. When an increase commences, the first few doses will, therefore, go to make up the deficiency on the score of the primary wants, and the later doses will be devoted to the satisfaction of the higher needs.

¹ Sidney Webb, in his Preface to R. Jones's *Nature and First Principle of Taxation*.

² Devas, *Groundwork of Economics*.

CHAPTER XII

PUBLIC FINANCE

1. REVENUE

THE revenue of the Government of India is derived from various sources. Several methods may be adopted in classifying these sources. The most natural method would be to divide the State income into four parts: (i) the income derived from the possession of State property, *e.g.*, forests, (ii) the profits of commercial undertakings, *e.g.*, the post office, (iii) incidental gains from administrative departments, *e.g.*, the law-courts, and (iv) taxation. Another and simpler method would be to put the first of these three items in one class, and to divide the revenue into two parts, non-tax-revenue and tax-revenue. No classification can be wholly logical; and it does not matter which one we adopt, provided it does not lead to a confusion of ideas.

Classification.

Tax-revenue
and non-tax-
revenue.

Unlike the tax-systems of some other countries, the only object of the Indian system is the production of revenue. No attempt is here made to

Revenue the
only purpose
of tax-system.

remove or modify through its system of public finance any inequalities that may exist in the distribution of wealth among the different classes of society.

Principles of the distribution of taxation.

The Government of India, in framing their budget, do not professedly accept any of the current theories of the apportionment of taxation;¹ though it may be said that in fact they follow in general the 'qualified proportional principle,' and the 'progressive' principle² only in special cases, as we shall see presently.

'Tax' defined.

¹ A 'tax' is defined by Professor Bastable as "a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." Compare this definition of a tax with that given by Kalidasa, the great Sanskrit poet, who says, "The State takes taxes from the people only to give it back a thousand-fold."

The different theories of taxation.

² Although every student of Economics is supposed to be familiar with the different alternative principles of taxation that have been suggested by thinkers, yet it will not perhaps be out of place to say a few words about them here. The first and the simplest principle is that the amount of service rendered by the State should be the standard by which to regulate taxation. The principal objection to this theory is that it is not possible to distribute the advantages among individuals, and to charge in proportion. The second principle is that of equality of taxation. All are equally benefited by the State; why should not all pay equally for these advantages? This method of equal contributions per head would be impossible politically, besides being extremely unjust. Thirdly, we come to the widely-accepted doctrine which takes 'faculty' or 'ability' as the measure for taxation. 'Ability,' however, is a vague term, and a measure of 'ability' is wanted. This measure may be property, or gross income, or net income. A slight variant of the 'faculty' theory is the 'sacrifice' theory. 'Ability' is objective, 'sacrifice' is subjective. Either of these theories may lead us to two forms of

The tax-system
'plural.'

It is evident that the tax-system of the Government of India is not unitary—that is to say, it does not consist of a single tax (on real property, land rent, capital, income, or any other substance). It rather inclines to the opposite extreme, viz., the multiple tax-system.¹ The taxes are collected from a very large variety of sources.

distribution : (1) proportional taxation, in which income is taken as the standard, and the amount of public burdens regulated by it ; and (2) progressive or graduated taxation, which places a heavier rate of charge on large than on small incomes, since the ability of the tax-payer is supposed to increase in a more rapid ratio than the increase of his income. The chief merit of the proportional system is its simplicity. It was the accepted doctrine of classical political economy, but progressive taxation is nowadays becoming more popular. The chief objections urged against the latter system are its arbitrary nature, the danger of its evasion, the probability of its harmful effect on the accumulation of wealth, and the relative unproductiveness of the progressive tax. On the other hand, it is held that progressive taxation is more equitable than proportional taxation. The opinions of the great economists are almost equally divided in this matter. An extreme form of the 'progressive principle' would be to substitute 'least sacrifice' for equal sacrifice, which would approximate to socialistic equality. There may be several modifications of the proportional principle, and one of these would be the 'degressive' taxation, a system in which a uniform rate of tax is levied beyond a prescribed limit (*vide* Bastable, *Public Finance*, and Seligman, *Progressive Taxation*).

¹ The merits of the 'single-tax' system are that the method is simple, the cost of collection is small, and the incidence on the several individuals and classes is precisely known. Among the many defects of the system may be pointed the following :—Its pressure may be extremely heavy at a particular point ; it may be easily evaded ; there is no possible room for correction, in case there be any error or miscalculation ; it may really prove very complex and troublesome ; there is the risk of exciting discontent

Both direct
and indirect.

The tax-system consists of both 'direct' and 'indirect' taxes. The land revenue, the provincial rates, and the assessed taxes are direct. The customs and excise duties are 'indirect.' The opium revenue partakes more of the character of profits from commercial transactions than of a tax. It must be remembered in this connection that a hard-and-fast line of division cannot be drawn between 'direct' and 'indirect' taxes.¹ There are

by raising the required sum in a single payment. The chief advantages of multiple taxation are that it bears lightly on an infinite number of points, heavily on none, and has a tendency to bring about equality in the burden falling on the people. But the system is open to the objections that its incidence is not easily ascertained, and that it is prejudicial to the development of industry, irksome and inconvenient to the payers, and very costly in collection. The system which finds most favour in modern countries is 'plural taxation,' which combines, to some extent, the merits of the two opposed systems.

¹ A tax is said to be 'direct' when the burden of the tax falls on the person who pays it; it is said to be 'indirect' when the burden falls on some person other than the person who pays it in the first instance. The great recommendation of 'direct' taxation is its educative influence on the minds of the people. Each citizen knows exactly how much he contributes to the income of the State. If at any time the Government becomes tyrannical or unmindful of the interests of the people, he can refuse to pay taxes, and when an undue burden is put on him, he may resist. Besides, there is the greater facility and lower cost of collection. The drawbacks are: (1) the disagreeable nature of a direct demand and the discontent to which an increase of taxation is likely to give rise to; (2) the difficulty of assessment; (3) the difficulty of obtaining a due proportion from the poorer members of society; and (4) its comparative inelasticity. The advantages of 'indirect' taxes are that (1) they are not often felt by the payer, and therefore cause him less annoyance; (2) they supply

some taxes which stand on the borderland between the two classes—for instance, the registration fees and the stamp duties.

Before we pass on to a somewhat detailed account of the various sources of revenue, it would be desirable to state here the generally-accepted chief attributes of a sound system of taxation, so that we may be able to judge how far they are accepted by the Indian Government in their financial system. They are as follows: (1) The revenue-system must be adequate to the just needs of a progressive state; (2) taxation should be productive, for otherwise its very object would be defeated; (3) the State should take as little as possible from the people, consistently with the maintenance of its efficiency;¹ in other words, the total disutility should be at a minimum; (4) taxation should be inexpensive in collection; (5) taxation should not check men's desire to save, and should retard as

Attributes of a
sound system
of taxation.

a facility for taxing the smaller contributors; (3) they are productive and, in times of prosperity, that is, they are elastic without undue pressure; and (4) they are collected at a time convenient to the payer. The disadvantages are the facilities which they offer for smuggling, the probability of a shrinkage in bad years, the possibility of their falling on the poor more heavily than on the rich, the greater expense of collection, and their possible harmful effect in disturbing the course of industry. The proper system of taxation seems to be that in which there is a judicious combination of 'direct' and 'indirect' taxes.

¹ This was the old theory, when taxation was regarded as a necessary evil. Some of the modern economists, *e.g.* Mr. Sidney Webb, incline towards the opposite view, holding that the State should take as much from individuals as possible, in order to confer a maximum of benefit on society as a whole.

little as possible the growth of wealth; (6) it should be justly distributed, so that the burden may be equal on all citizens, or, in other words, the marginal disutility for each tax-payer should be at a minimum; (7) it should be certain; (8) it should be elastic; (9) the objects taxed and the periods of payment should be such as suit the convenience of the people, and to cause as little vexation and opposition as possible; and (10) the tax-system should be adjusted as far as possible to the habits and ideas of the people.¹

The heads of
revenue.

The chief heads of Indian revenue are generally given as follows: land revenue, opium, salt, stamps, excise, provincial rates, customs, assessed taxes, forest, registration, tributes from Native States, interest, post office, telegraph, mint, receipts by civil departments, miscellaneous receipts, railways, irrigation, other public works, and receipts by the military department. It is clear that the first eleven of these heads fall either wholly or partly into the class of tax-revenue, and the rest into that of non-tax-revenue.

Land Revenue.

The land revenue is, and has always been, the mainstay of Indian finance. The Government base their claim to the land revenue on "the ancient right of the State to a share of the produce of the

¹ A corollary that is often deduced from these maxims is that the first necessities of life should not be taxed. Some economists would also add to the list another attribute, viz. that no tax should be levied, the character and extent of which offer, as human nature is generally constituted, a greater inducement to the tax-payer to evade than to pay (*vide* D. A. Wells, *Principles of Taxation*).

soil." Successive Governments in India in the past have at all times raised the greater part of their income from the land. This particular tax possesses, therefore, the merits of productivity and of being in harmony with the traditions of the people.

The annual income from this source is about 31·5 crores of rupees¹ (£21·1 millions), or 26 per cent. of the total gross revenue of India and about two-fifths of the total net revenue. The collection of land revenue has increased during the last quarter of a century by about 10 crores.

The question whether the land revenue is a 'tax' or a 'rent' is more an academic than a practical one. The official view seems to be to regard it as rent rather than as a tax. But Mr. Baden-Powell holds the opposite view. "The land revenue cannot," says he, "be regarded as a rent, not even in

Land revenue
tax or rent?

¹ The figures given in this and the following pages are those of the Revised Estimates, 1913-14. A few words about the method of presenting the Annual Estimates may be useful here. In the beginning of March in every year the Finance Member presents before the Imperial Legislative Council a statement regarding the estimated Income and Expenditure of the next year (commencing on the 1st of April). These Budget proposals are then discussed and examined in detail during the next two weeks. The Budget in its final form is generally presented in the third week of March, the closing debate taking place in the last week. On the occasion of the closing debate, Members only express their views, and no votes are taken. At the time of the presentation of the Budget Estimates for the ensuing year, the Finance Member also presents the Revised Estimates for the year about to close, together with the Accounts of the preceding year. The Chamberlain Commission have recommended that the financial year should commence on the 1st of January, or better still, on the 1st of November.

the Ryotwari lands." He goes on to assert, "I should be inclined to regard the charge as in the nature of a tax on agricultural incomes."¹

Opium. The production of opium is a Government monopoly in British India. Poppy cultivation is permitted only in parts of Behar and the United Provinces, and is under the control of the Government.² Opium grown in the Semi-independent States, known as 'Malwa' opium, is permitted to enter British territory only on payment of a heavy duty (Rs. 600 per chest for export and Rs. 700 per chest for consumption). By agreement with the Chinese Government, the Government of India have to lessen the area of cultivation every year. The revenue from opium, which was at one time a very important item in the financial resources of the Government, has now dwindled down to a little over 2 crores. In a few years, this source of revenue will almost entirely cease to exist.

Salt. The salt revenue is raised by a duty of R. 1 per maund on all salt imported into or manufactured in India.³ The successive reductions in the duty in

¹ B. H. Baden-Powell, *Land Systems of British India*.

² The cultivator has to get a license, and is required to deliver the whole of his outturn of the crude opium to the Government at the fixed price of Rs. 6 per seer. The excise opium, that is, the small quantity required for consumption in India, is made over to the Excise Department, and Rs. 8½ per seer is credited to opium revenue. The rest, known as provision opium, is sold by auction, and is intended for export, mainly to China.

³ The production of salt is not a Government monopoly, but private manufacture is prohibited owing to the difficulty of preventing an evasion of the tax.

1903, 1905, and 1907 have resulted in a slight diminution of the revenue, but the consumption has increased a good deal. The salt revenue amounts annually to a little less than 5 crores of rupees.

The stamp revenue is derived from two classes of stamps, judicial or court-fee stamps and non-judicial stamps (used in commercial transactions). The amount of revenue realised from this source is nearly $7\frac{1}{2}$ crores. The burden of this tax falls on litigants and the commercial classes. Stamps.

The excise¹ revenue is derived from licenses, distillery fees, and duties on the sale of intoxicating liquors and drugs, together with the duty on opium consumed in India. The Government obtain a handsome revenue from this source of over 13 crores, but their excise policy is condemned by temperance reformers on the ground that it tends to encourage harmful consumption. The official defence is that the duty serves as a check on the consumption of intoxicants. Excise.

The provincial rates consist of cesses on land for roads, schools, etc., for canals and railways, and for village service and patwaries, besides minor rates. Some of these rates were abolished in 1912, and the Provincial Rates.

¹“‘Excise’ is a duty on home goods either in the process of their manufacture or before their sale to the home consumers” (*The Encyclopaedia Britannica*).

The term ‘customs’ was anciently used in an extensive sense for customary payments or dues of many kinds, whether regal, or episcopal, or ecclesiastical, until in course of time it was restricted to the duties payable to the king, either upon the exportation or importation, or carriage coastwise, of certain articles of commerce (*vide* W. M. J. Williams, *King’s Revenue*).

revenue from this source now amounts to only 27 lakhs.

Customs.

The customs duties are levied solely for fiscal purposes, and are not protective or preferential in their nature. They are not intended to benefit one class or industry at the expense of another. The customs tariff consists of a long list of articles.

Import Duties.

Special import duties at different rates are levied on arms, ammunition, military stores, liquors, opium and its alkaloids, petroleum,¹ salt, salted fish, tobacco, and silver. General import duties, at the rate of 5 per cent. *ad valorem*, are levied on a large number of commodities, of which a revised list of tariff valuations is usually published every December.

There is a general import duty *ad valorem*² of 3½ per cent. on manufactured cotton goods, of 2½ per cent. *ad valorem* on vinegar and copperas, of 1 per cent. *ad valorem* on iron and steel, and a duty varying from 2½ to 5 per cent. on chemicals, drugs, etc. The free list consists of railway materials,

¹ "This duty," says Sir John Strachey, "has the merit of directly affecting no British industry" (Strachey, *India*, p. 182).

² It is necessary to understand the distinction between specific and *ad valorem* duties. A duty is specific when it is levied so much per unit of a particular commodity; it is *ad valorem* when the tax is a certain percentage of the estimated value of the commodity. The chief defect of the specific duty is that it makes no distinction between superior and inferior kinds of goods, and thus prejudicially affects the poor consumers. Its great merit lies in the economy of its collection, and in the fact that it does not subject the importer to inconvenience and uncertainty as to the amount of duty.

machinery, gold bullion and coin, animals, certain articles of food and drink, raw wool, raw cotton, cotton twist and yarn, books, ships, manures, coal, and various other articles. Special countervailing duties are levied on bounty-fed sugar imported from the Argentine Republic and Denmark.

An export duty of 3 annas per maund is imposed on rice. A customs duty of $\frac{1}{4}$ pie per pound is levied on all tea exported out of India, but the proceeds are paid to a Tea Cess Committee for the encouragement of Indian tea. These duties are, to some extent, in accordance with the principle that the levy of export duties is justified on those commodities only in which the exporting country has practically a monopoly of production. On the same ground an export duty on jute may be suggested.¹

An excise duty of $3\frac{1}{2}$ per cent. *ad valorem* is imposed on the products of Indian cotton mills. This duty has the effect of neutralising the protective tendency of the $3\frac{1}{2}$ per cent. duty levied on imported cotton goods. It is said that the duty was first levied at the bidding of Lancashire, and the tax is very unpopular with the cotton manufacturers.

The customs tariff of India yields annually a revenue of slightly less than 11 crores of rupees. Cotton piece-goods are much the most important source of revenue in the tariff. Customs revenue is generally elastic, and tends to expand with the expansion of trade and industry. Of the commodity

Export duties.

Export duty
in Travancore
on Cotton
in tea.

Excise duty on cotton.

Character
of customs
duties.

¹ Since 1912, an export duty on raw jute and jute manufactures has been introduced for the benefit of the Calcutta Improvement Trust.

Their
incidence.

taxes, the salt and petroleum duties fall on almost the entire community, the cotton tax is paid by a large proportion of the population, the sugar duty affects the middle class, and the rest fall on smaller sections or groups. The duty on imported liquors produces the desirable effect of discouraging, though in a slight degree, the consumption of alcohol.

Income-tax.

The progressive or graduated principle is adopted in the assessment of the income-tax. All incomes of less than Rs. 1000 a year are exempted from taxation.¹ Incomes from salaries and pensions or from interest on securities, if amounting to Rs. 2000 per annum, pay 5 pies in the rupee; incomes less than Rs. 2000 pay 4 pies; companies pay 5 pies in the rupee on their net profits; incomes under Rs. 2000 derived from other sources pay according to a graded scale from Rs. 20 on an income of Rs. 1000 to Rs. 42 on Rs. 1999, and 5 pies in the rupee on incomes of Rs. 2000 and upwards. The income-tax is not levied on incomes from land or agriculture.

Yield of
Income-tax.

The revenue derived from the income-tax is about $2\frac{3}{4}$ crores of rupees. The fact that the yield of the income-tax is so small shows that the comparatively well-to-do classes—who alone pay the tax—represent only a very small proportion of the entire community. This tax serves as a measure of the economic condition of a people, for the revenue tends to increase with the general progress of society. In India, however, the expansion of revenue due to this source is not rapid at the present moment.

¹In the United Kingdom all incomes below £160 a year are exempt.

Registration revenue is derived from documents, which are divided into (a) those of which registration is compulsory or necessary for the validity of the Act, and (b) those of which registration is optional. Practically all deeds transferring immovable property have to be registered. The amount of revenue is about 75 lakhs of rupees. *Ad valorem* fees are charged for registration. Registration.

Forest revenue is raised by royalties on, or by the sale of, timber or other produce and by the issue at specified fees of permits to graze cattle, or to extract for sale timber, firewood, charcoal, bamboos, canes, and minor forest produce. The gross revenue derived from forests is a little over $3\frac{1}{4}$ crores of rupees. The immense importance to the country of the preservation of forests has been pointed out in a previous chapter. Forests.

Of the income derived from sources other than taxation, that from railways forms by far the largest proportion. The annual net railway receipts amount to nearly 26 crores.¹ Irrigation yields a gross revenue of about $5\frac{1}{2}$ crores. The Law Courts, and sometimes the Post Office and the Telegraph Department, also yield net profits to the Government. The Government of India also receive about 94 lakhs as tribute from the Feudatory States. Revenue from railways, irrigation, and other sources.

The total Gross Revenue now amounts to about 126 crores, and the Net Revenue to about Total revenue.

¹ Deducting from this the interest and miscellaneous charges, amounting to about 20 crores, a net profit of about 6 crores is left to Government. From irrigation, the Government usually derives a net profit of nearly $1\frac{1}{2}$ crores a year.

75 crores.¹ The revenue has more than doubled itself during the last fifty years.

Now, the question which suggests itself is, How far does this expansion of revenue furnish evidence of increasing prosperity? This question is answered differently by different individuals and parties. The officials would say that general prosperity has undoubtedly increased; some Indian patriots would, on the contrary, suggest that the increase of revenue has been due to the rapacity of the Government.

The burden of
taxation.

According to official calculations,² the incidence of taxes per head of the population is R.2 11·3 as. (3s. 7·3d.) per year. If land revenue be excluded,

¹ In the figures relating to Gross Revenue and Expenditure, all receipts are included in the total of revenue and all outlay in the total of expenditure, with the one exception that the working expenses of railways are treated not as expenditure but as a deduction from revenue. In Net Revenue and Expenditure, the interest charges as well as the working expenses of railways, the interest charges and working expenses of irrigation works, the cost of the cultivation and manufacture of opium, and the charges against other revenue-earning departments are treated as deductions from revenue, and the receipts of spending departments are treated as deductions from expenditure.

² The figures are taken from *The Statistical Abstract for British India*, issued in 1913. It is not known by what process of calculation these figures have been obtained. Our own calculations give us Rs.3 3as., and if the land-revenue be excluded, for which we don't see any earthly reason, R.1 15 as. In this connection Lord Cromer, in an article on "Indian Progress and Taxation" contributed to the *Quarterly Review*, said: "It would be an error to suppose that the incipient industrialism of the past decade has resulted in any accretion of wealth so as to increase the tax-paying power of the people." By reason of the poverty of the Indian people, he says, it is the least potentially tax-paying community in the world.

the burden would be R.1 7'8 as. (1s. 11'8d.). The proportion of taxation to the average income is nearly 9 per cent.¹

The total revenue of India exceeds one-half of the amount of Imperial receipts in so wealthy a country as the United Kingdom. This seems to be rather excessive, but the officials defend their position by pointing out that the population of British India is nearly *five* times as large as that of the United Kingdom and that the Government of India undertakes many duties outside those that ordinarily fall on the State in England. The critics of the Government reply that though the population of British India is five times as large as that of the United Kingdom, yet the national income is proportionally much larger in the latter country than in the former. The incidence of taxation is shown by

Comparison
with the
United
Kingdom.

¹I have purposely omitted the discussion of the difficult and complex question of the shifting of taxation. Most of the taxes are shifted, wholly or partly, by the person on whom they fall to somebody else. There are two kinds of taxes, however, which remain where they are imposed. These are taxes on economic rent and pure profits, or, to use a term which includes both elements, economic surplus. A tax on surplus can never be shifted, because surplus is not a part of the cost of production, but is the result of the process of production. In India, there is no economic rent, and, therefore, a tax on rent may affect the prices of agricultural produce and may thus be shifted. The stamp duties on inheritance, gifts, etc., cannot be shifted. All other taxes tend to be shifted, until they fall ultimately on the surplus. Customs duties, for instance, are almost always shifted, though not necessarily to the full extent. In actual life, there is so much of economic friction that it is seldom possible to accurately measure the incidence of any tax on the classes or individuals of a community (*vide* Seligman, *Incidence and Shifting of Taxation*).

comparison with the people's earnings, and judged by this standard, the incidence is higher in India than in England. Even if the rate were the same, the pressure would be more keenly felt by the people of India with their lower average income than by the richer people of England. As for the second point, they argue that it is true that the Indian Government perform such duties as the control of railways, etc., but these are not onerous duties; they yield the State net profits, or in other words, they are concerns beneficial to the Government. The Government of India do not, they say, undertake any of the large schemes of social reform, such as Old Age Pensions, Compulsory Insurance, etc., which are undertaken by the Government of the United Kingdom; neither does their expenditure bear any comparison with the amounts spent by the civilised governments in Europe and America on education, sanitation, science, art, and other similar matters.

2. EXPENDITURE

In Public Expenditure the basic principle should be the public advantage. It should be so apportioned between the different heads that the public may derive the maximum utility from each.

Gross and net
expenditure.

The gross annual expenditure amounts nearly to 124 crores, the net expenditure to about 74 crores.¹ In the Financial Statement the Financial Member usually budgets for a balance of a few crores.

¹ In the Budget for 1915-16 the gross revenue is estimated at 121 crores and the gross expenditure at about 127 crores, leaving a deficit of 6 crores.

The chief heads of expenditure are: (1) Debt Services, (2) Military Services, (3) Charges in respect of collection of revenue, (4) Salaries and Expenses of Civil Departments, and (5) Famine Relief and Insurance, (6) Public Works Expenditure, and (7) Miscellaneous Civil Charges. Chief heads.

The debt services include interest (i) on the ordinary debt, (ii) on railway debt, (iii) on irrigation debt, and (iv) on other obligations. The total net expenditure under this head is a little over 1½ crores of rupees. Debt services.

The amount of debt on the 31st March, 1913, was about 412 crores (£274½ millions).¹ Of the outstanding debt nearly 270 crores (£179 millions) were held in England, and 142·8 crores (£95·2 millions) in India. National Debt.

The classification of the debt outstanding on the 31st March, 1913, was as follows:

(a) Permanent debt:

(i) Public Works:

Debt for railways, - - £211,832,819

Debt for irrigation work, - 37,552,030

For initial expenditure on
the new capital at Delhi, 119,886

Total (Public Works debt), - £249,504,735

(ii) Ordinary debt, - - 24,898,777

Total permanent debt, - - £274,403,512

(b) Temporary debt, - - Nil.

¹Mr. G. K. Gokhale once said: "Against this (public debt) the Government of India have their railways and irrigation works, their loans and advances to local bodies, native states, and cultivators, and their cash balances."

The National Debt is, again, divided into Funded and Unfunded. The Funded Debt consists of the Sterling and Rupee Loans, and the Unfunded of Savings Bank Deposits and Deposits of Service Funds.

Burden of
debt.

The National Debt of India appears to be rather large for a poor country like India; but four-fifths of it can hardly be regarded as a burden, as the State derives income from the undertakings financed by such loans. On the question whether the State should undertake industrial operations or not, opinion, of course, is divided. But there is one advantage when the money required for such undertakings is borrowed by the Government, viz., that the State can get loans at cheaper rates of interest.¹

As for the amount of debt, 107 crores was inherited by the Indian Government from the East India Company; and it is sometimes argued that the debt incurred by a commercial body should not have been fastened on the people of India. That amount has grown by successive additions up to the present figure.² The interest charges have also

Sir Guy F.
Wilson's view.

¹ The bulk of the public debt is at $3\frac{1}{2}$ per cent. Mr. Gokhale, in his speech in the Viceregal Council, February, 1911, compared this rate of interest with the rates paid by some other countries, and tried to prove that the credit of India was excellent. "Japan," said he, "borrows at from 4 to 7 per cent.; Russia borrows at about 5 per cent.; Turkey borrows at 5 per cent. and over; China borrows at between 4 and 7 per cent., 4 per cent. in a few cases, 6 and 7 per cent. being the usual rate."

² Between 1909 and 1913, there was an increase of 27 crores to the Public Debt.

grown. So far, however, from imposing any additional burden on the taxpayer, this increase has had exactly the opposite effect; the reason lying in the growing proportion to the total debt of that part which represents profitable investment in railways and irrigation works. "The unremunerative debt," said Sir G. Fleetwood Wilson,¹ "has shrunk in the last twenty years from being nearly one-half to being just over one-seventh of the total volume of our outstanding loans."² The amount of debt is very often spoken of as huge, but Mr. G. K. Gokhale would not shrink from adding to it, provided such addition was for a purpose which would directly contribute to the welfare of the people.

The principles which should guide the Government in providing for any expenditure by means of loans may be laid down as follows: (a) the Government should meet all ordinary expenditure out of the ordinary revenues; (b) they should not place the burden on posterity for any improvements which tend to benefit the present generation; (c) when any measure is undertaken of which the benefit is likely to accrue to future generations, it would not be improper to finance such a measure out of a loan; and (d) in case of a heavy and unexpected outlay, which cannot be met out of the ordinary revenues, and which would place an excessive burden on the people if it were met by enhanced taxation, it

Loans or
taxes?

¹ *Vide* Sir G. Fleetwood Wilson's Budget speech, 1907.

² The critics of the Government would reply that inasmuch as the productive public works are likely to deteriorate in value in the course of time, this is an over-estimate.

would be better to have recourse to a loan. Under all circumstances, it would be advisable to keep the national debt down at as low a figure as possible.

Famine Relief
and Insurance.

Under the head of Famine Relief and Insurance the Government set apart every year a sum of a crore and a half of rupees for the reduction of the National Debt. This sum was originally intended to be devoted to the construction of such public works as would prevent the recurrence of famines, and to the avoidance or reduction of debt. Some of the Indian statesmen think that this sum of $1\frac{1}{2}$ crores of rupees can now be more profitably spent in undertaking measures of real public utility, such as agricultural education, the organisation of rural credit, and other measures connected with the material improvement of the peasantry, than in reducing the public debt; but the Government are unwilling to accept this suggestion.

Military
services.

The net expenditure under the head of military services amounts annually to about 32 crores, or 43 per cent. of the total net revenue.¹ This has always been criticised by Indian patriots as an exceedingly heavy charge, but the Government seem to view it as necessary. The question whether the country is or is not paying too high a price for the peace and security it enjoys is answered differently by different people. Critics of the Government think that the expenditure under this head can be curtailed a good deal without running any

¹ During the last five years, the Military Expenditure has increased by nearly 2 crores.

risk.¹ It is the English portion of the army that accounts for the greater part of the expenditure, and if a part of it could be replaced by Indian soldiers, there would be an appreciable relief to the Public Exchequer. Of the total expenditure under this head, nearly 30 crores is the army charge, effective and non-effective, and about 2 crores are spent on the navy, military works, and special defences.

The charges of collection constitute the bulk of what is shown in the Accounts as the Direct Demands on the Revenues. This is of course an absolutely necessary item of expenditure. It comes up to about 14 crores of rupees, or about 18 per cent. of the total net revenue. There seems to be much room for the practice of greater economy in this matter.²

Collection of
revenue.

The next head is that of Salaries and Expenses of Civil Departments. The expenditure under this

¹ Sir George White, Commander-in-Chief of India, said on one occasion, "We maintain that the Indian army does supply a great addition of military power to England, that a part of the British is trained at the expense of India, and that the whole of the men passed into the reserve have been maintained out of the Indian revenues." It is argued that if a part of the Indian forces be really intended to safeguard the interests of England in Asia outside India, England ought to bear the cost of maintenance. India has fought the wars of England in the past both with her blood and her treasure, and she will do so in future, but she has the right to expect equitable treatment from England in return.

² In the United Kingdom the charges of collection amount to only a little more than two per cent. of the national revenue. But as the systems of keeping accounts are different in the two countries, comparisons may not be quite fair.

Growth of
expenditure.

Causes.

head amounts to about 27 crores.¹ During the last fifteen years, the civil expenditure has increased more than 50 per cent. So far as this increase represents outlay on measures tending to the benefit of the community, nobody has any reason to grumble. But, as a matter of fact, a very large part of the increase has been due to an unnecessary multiplication of offices and departments.² During

¹ The main sub-heads are :

	Imperial.	Provincial.
(i) General Administration	1·07 crores	1·32 crores
(ii) Law and Justice - -	·31 „	5·75 „
(iii) Police - - -	·36 „	7·00 „
(iv) Ports and Pilotage -	—	·30 „
(v) Education - - -	·16 „	4·66 „
(vi) Ecclesiastical - -	·19 „	—
(vii) Medical - - -	·21 „	1·82 „
(viii) Political - - -	1·35 „	·36 „
(ix) Scientific and Minor Depts.	·57 „	·89 „

The expenditure in England under this head is about three-quarters of a crore. It will be seen from this analysis that the amount spent on Education (Imperial and Provincial) is only $4\frac{3}{4}$ crores, and that on Sanitation 2 crores. These two most important items thus represent less than 4 per cent. and $1\frac{3}{4}$ per cent. respectively of the total expenditure. Even of this expenditure much the greater part represents the salaries of the inspecting staff, from which the community does not derive much advantage.

² “The tendency,” wrote a high official some years ago, “especially of late years, has been to overdo this superintending and checking system, and the almost invariable remedy for an alleged defect has been the creation of a new department, or the appointment of a special commissioner. It has always seemed to me that reforms should commence at the bottom instead of the top, and that endeavours should be made to strengthen and improve the position of those who are called upon to do the

the years 1901-06, the Government of India were under the demoralising influence of fat surpluses, which enabled them to indulge in increasing the recurring expenditure. This soon afterwards became a serious matter and compelled the Government, faced with deficits on account of the decrease of the opium revenue, and the creation of the new (now defunct) Province of Eastern Bengal and Assam, to have recourse to fresh taxation.

The extravagance of the Provincial Governments was also, in some degree, responsible for the straitened financial position of the Indian administration. In 1910, the Finance Member made an earnest appeal to the Provincial Governments for economy. In February, 1911, Mr. G. K. Gokhale proposed a resolution in the Imperial Legislative Council for the appointment of a Committee to enquire into the growth of public expenditure, and although the resolution was rejected, the fact of increase was not seriously disputed. The Finance Member gave the Council the assurance that enquiries would be made by the heads of all departments, who would also in future practise as much economy as possible. The Secretary of State for India also strongly urged the necessity of curtailing all unnecessary expenditure.

Extravagance
of Government
departments.

actual work at first hand." For the reduction of public expenditure the following among other measures may be suggested: (1) reduction in the number of officers whose duties are of a supervising, as distinguished from an executive, character; (2) abolition of Commissionerships of Divisions; (3) abolition of unnecessary posts, *e.g.* those of the Inspector-General of Excise, Sanitary Commissioner with the Government of India, etc.; and (4) substitution of Indian for European agency.

Miscellaneous
Civil Charges.

The Miscellaneous Civil Charges are now shown as a separate item. They include Territorial and Political Pensions, Civil, Furlough and Absentee Allowances, Superannuation Allowances and Pensions, Stationery and Printing, etc. The total sum amounts to $7\frac{3}{4}$ crores, of which about one-half is spent in England. The Public Works expenditure includes the construction and working expenses of Railways, Irrigation Works, and Civil Works. About 27 crores are spent annually on Railways, 7 crores on Irrigation, and nearly 50 lakhs on Civil Works.

Public Works.

Need for
retrenchment.

Retrenchment ought to be the watchword of the Government; for if they check their expenditure in other directions, they will have no difficulty in finding money for the real needs of the people, namely, education, sanitation, and social reform.

Welby
Commission
Minority
Report.

The Minority Commissioners of the Welby Commission thus summarised the views of Indian statesmen regarding the present management of Indian expenditure, and the direction in which improvements may be effected to the advantage of the Indian people.¹

"1. That Indian expenditure is not always exclusively, or even mainly, governed by Indian considerations, as is illustrated by—

(a) Indian Defence; Indian frontier policy in its varying phases—adopted in furtherance of Imperial schemes of trans-frontier territorial expansion more than for India's defence—tending only to weaken her natural defences and loading her with indefinite and ever-increasing liabilities;

¹Vide *Report*, Cd. 131 of 1900.

(b) Railway extensions forced on without due heed to the country's needs or means—apparently intended to advance her industrial development, but unaccompanied by other and larger necessary measures which alone could make them serviceable to the proposed end;

(c) Continued concessions, in respect of pay, promotion, pension, etc., to the European services, both civil and military—concessions lending colour to the view that the country exists for the services, and not the services for the country.

The greater part of the increase of expenditure in recent years falls under these heads, and this fact bears out the contention of the Indian people that Indian interests are often subordinated to considerations of Imperial expansion, British commerce, and the European services.

2. That due care is not exercised, nor is strict economy enforced, in the spending of India's money, as may be seen from the following:—

(a) Comparatively little is yet done in the way of substituting qualified indigenous agency for foreign agency in the various departments of the civil administration (*e.g.* judicial, police, medical, post, telegraph);

(b) Overgrowth of controlling and supervising central establishments (*e.g.* sanitation, police, jails, stamps, registration, etc.);

(c) Organisation and maintenance of the Indian armies permanently on a war footing, without the necessary supports of reserves and militia—a system

of national defence long since discarded as wasteful in European countries ;

(d) Disproportionately large numbers of British troops as compared with Native ;

(e) The officering of the Native army—over-recruiting of the Staff Corps and an increasingly restricted employment of Indian officers, the question having an important bearing on finance ;

(f) Railway contracts and concessions to railway companies.

3. That there is a faulty distribution of expenditure of Indian money—

(a) Comparatively more is spent on so-called national defence, and less on the material and moral development of the country and the improvement of the civil administration ;

(b) More is spent on Imperial purposes and less on provincial purposes than is desirable in the present circumstances of the country, the provincial purposes being intimately connected, and the Imperial purposes only remotely, with the immediate well-being of the people ;

(c) More is spent on improvement of communications, and less on the improvement of the condition and capacity of the people themselves.

The present scale of India's expenditure is also open generally to objection on the ground that it is much beyond the capacity of the country to bear."

3. HOME CHARGES

The details of the expenditure incurred in Eng- Elements.
land on account of India are as follows :

	Crores.
(i) Interest and management of debt, and payment of interest and annuities on account of railways and irrigation works	17½
(ii) Payments in connection with Civil De- partments in India - - - -	¼
(iii) India Office (excluding pensions) - -	⅓
(iv) Army and marine effective charges - -	1¾
(v) Stores of all kinds charged against revenue	2¼
(vi) Furlough allowances - - - -	1½
(vii) Non-effective charges (pensions and gra- tuities) - - - - -	7
Total - - - (about)	<u>30¾</u>

Since 1901-2, the amount spent in England has increased by over six crores.

The Home Charges have for many years past been the subject of much adverse criticism. They have been regarded by many Indian as well as English statesmen as one of the main causes of Indian poverty. Further, some have described them as a tribute levied by England upon India; and Mr. J. S. Mill's statement that "international payments for which no equivalent in commodities or money is paid have all the effects of a tribute" has been quoted in support of this view. Sir George Wingate observed many years ago, "The taxes spent in the country from which they are raised are

Are Home
Charges a
tribute?

totally different in their effect from taxes raised in one country and spent in another.... In this case they constitute no mere transfer of a portion of the national income from one set of citizens to another, but are an absolute loss and extinction of the whole amount drawn from the taxed country." Sir Thomas Munro also expressed a similar opinion.

Political and
economic
aspects.

Considered from the standpoint of the economist, the Home Charges present two aspects—one political and the other economic. As is evident from the analysis given above, about one-third of the total amount is spent in England owing to the political relations of that country with India, and the remaining two-thirds represent payments which are really transactions of an economic character. It would be a mistake, therefore, to regard the whole amount of the Home Charges as a drain upon the resources of the country. But, however legitimate and justifiable some of the payments may be in themselves, there is no denying the fact that more than 40 per cent. of the total revenue of India goes out of the country without any direct return. This certainly is not satisfactory. Every effort ought, therefore, to be made, not only to check the further growth of the Home Charges, but to reduce as much as possible their present size. In regard to civil expenses, army and marine charges, furlough allowances, pensions and gratuities, Indian politicians are of opinion that the aggregate amount can, and ought to, be greatly reduced by the substitution in a large measure of Indian for British agency in the administration as well as the defence of the country.

Suggestions
for reduction.

As for the debt services, they urge that no railways be in future constructed or purchased by the State with borrowed capital, and that the debt now held in England be gradually redeemed and, if possible, substituted by a rupee debt. Regarding the purchase of stores, public opinion in India strongly advocates the abolition or at least the reduction in size of the gigantic Stores Department in Great Britain, for the two-fold purpose of reducing the Home Charges and encouraging indigenous industries.

4. CASH BALANCES

In order to be able to carry on their operations, the Government must have working balances in hand. On the basis of experience it has been estimated that the minimum balance required in London is 6 crores (4 millions) and that in India 18 crores (12 millions). During the years 1910 to 1912, however, the balances in London were very much in excess of the normal requirements. They were £12·8, £16·7, and £18·39 millions respectively in London, and £12·29, £13·56, and £12·27 millions respectively in India. The large balances held in London formed the subject of much adverse criticism. Government money, it was said, had been moved unnecessarily from India in order that it might assist the London merchants. It was also pointed out that while the Government were borrowing with one hand, they were lending with another at lower rates of interest to "approved borrowers" in London. Although the critics went too far in

Minimum
amounts of
Balances
required.

Balances in
recent years.

accusing the authorities at the India Office of acting from unworthy motives, the position was manifestly unsatisfactory. If the Government have in hand moneys for which they have no use, they ought to utilise them either in initiating measures tending to the benefit of the people, such as universal education and sanitation, or for the reduction and avoidance of debt. If they have any moneys which they can safely lend out temporarily, the people of India (and not merely the Anglo-Indian merchants) ought to have the benefit.¹

5. PROVINCIAL FINANCE

History.

Direct
control by
Supreme
Government.

Originally, the whole of the revenues of India was treated as a single fund to be collected into a central account, and from thence doled out piecemeal to the various provinces according to the requirements of each. The Provincial Governments collected and ultimately disbursed a large proportion of the revenues, but as they gained nothing by enhanced efficiency, the development of public revenues did not proceed fast; and as they had no motive for economy the system led to much extravagance. Moreover, there were constant disputes

¹ On the 31st March, 1913, instead of the normal balance of £12 millions in India, the total balance was £19,268,200, which was distributed as follows :

In 270 district treasuries - - -	£6,590,500
In 35 branches of Presidency banks - -	2,198,300
In 3 head offices of Presidency banks - -	1,595,600
In 3 Reserve Treasuries - - -	8,908,700
	<hr/>
	£19,293,100

between the Central and the Provincial Governments. Even the minutest items of expenditure had to be reported for the orders of the Government of India. In 1871, Sir Richard Strachey's scheme of reform was given effect to. Certain departments were made over to the Provincial Governments, and they were credited with the departmental receipts together with a lump sum to enable them to meet the expenditure. In 1877, the supreme Government transferred to the financial control of the Provincial Governments all services except those which were found expedient to be kept under central control. In 1882, the system of Provincial finance was still further developed.

The contracts made with the Provincial Governments from this time forward were revised every five years. This system of quinquennial revision was a fertile cause of friction and improvidence and waste. Not only were the Provincial Governments opposed to the system, but it formed the subject of severe criticism in the Indian National Congress. In 1904, it was decided to give to the Provincial Governments a permanent interest in the revenues and expenditure under their control by introducing a scheme of 'quasi-permanent' settlements. A new series of 'quasi-permanent' settlements was concluded in 1907, but had to be completely revised and readjusted immediately afterwards.

Provincial
Contracts.

In March, 1911, the financial settlement with each of the eight major provinces was made permanent. Succour to a distressed province will in future be given only in the case of a widespread

Present
arrangements.

famine; on the other hand, the Government of India will call upon the provinces for aid in case of a war or in a grave financial crisis. Apart from these only special emergencies, however, the settlements will be fixed, rigid, and permanent.

Provincial
Control.

No province shall in future budget for a deficit in its current revenue and expenditure except under abnormal circumstances. It will not be permissible for a Provincial Government to run through its balances, build up a heavy overdraft on the general balances of India, and then have to be set on its feet by Imperial benefactions. If, for any special and temporary reason, a Provincial Government has exhausted its own balances and receives permission to overdraw, it will have to take a small loan from the Imperial Exchequer and pay interest on it. If, in the last resort, a province finds it impossible to meet its demands, it may have to consider the propriety of raising additional taxation. The settlements will not, however, debar the provinces from sharing in any surplus which the Government of India may be in a position to distribute in a good year. Moreover, the Government will no longer exercise the same minute control over the budgetary arrangements of the provinces as has been the practice in the past.¹

¹ *Vide* Sir Guy Fleetwood Wilson's Budget speech, 1911. "This measure," in the words of Sir Guy Fleetwood Wilson, "will give local governments a more abiding interest in managing and directing their own resources; it will greatly reduce the occasion for interference by the Central Government; it will stimulate provincial independence and self-reliance. To the Government of India also it ought to mean much. It will relieve

This is the present policy of the Government. It has been urged in many quarters that the Imperial and Provincial sources of revenue should be totally separated and that the Provinces should have complete autonomy in financial affairs.¹

Complete
separation
demanded.

The revenue retained by the Government of India for its own purposes and for meeting the expenditure incurred by the Secretary of State in England is described in the accounts as Imperial, and that which is assigned to the Provincial Governments is described as Provincial. The expenditure is similarly classified. The principal heads of revenue which are wholly Imperial are: Opium, salt, customs, post-office, telegraph, mint, exchange, and State railways; the principal divided heads being land revenue, irrigation, stamps, excise, assessed taxes, and forests.² On the expenditure side of the accounts the charge for military services, debt services, and the charges under certain minor heads are entirely Imperial; general administration is divided; most other important heads of expenditure are Provincial.

Provincial
Revenues.

us from the unforeseen and indeterminate liability to which the Imperial revenues were formerly exposed by the financial difficulties of any individual province."

¹ The Decentralisation Commission said: "The grant to the local Legislative Councils of material control over Provincial Finance may make it necessary to do away, as far as possible, with the present divided heads and to place some entirely within the purview of the Provincial and some within that of the Imperial Government."

² The shares of the divided heads are not always the same for the different provinces. For instance, the United Provinces get three-eighths of the Land Revenue, while Bengal receives one-half.

Revenue and
Expenditure
in India
(Imperial and
Provincial)
and in
England.

The gross Revenue and Expenditure for 1913-14¹ (Revised Estimates) in crores of Rupees were as follows :

	Imperial India.	Provincial.	England.
Revenue, -	79.37	46.06	1.2
Expenditure,	47.78	46.96	30.75

The net Revenue was about 75½ crores and the net Expenditure 74 crores.

6. LOCAL FINANCE

Local Government² may be considered under three heads: Municipalities, District and Local Boards, and Port Trusts.

Municipalities.

The aggregate income of all the municipalities taken together was about 7½ crores in 1911-12. About 40 per cent. of this was provided by Calcutta, Bombay, Madras, and Rangoon. Municipal revenue is derived from various sources: Rates and taxes, realisations under special Acts, proceeds of municipal property and grants from the Government. Of the taxes, the most important are those on houses and land. The octroi duties, which used

Sources of
income.

¹ Vide *Financial Statement and Budget for 1914-15*.

² The system of Local Self-Government in India was introduced by Lord Mayo and Lord Ripon. The municipal bodies are in general partly elected and partly nominated. They are subject to Government control in all their activities. In 1912 there were 714 municipalities in India, containing within their limits about 17 million people, or about 6 per cent. of the total population. Their functions are similar to those of the Borough Councils and Urban District Councils of England, but their constitutions are less democratic.

to form a chief source of revenue, have now been abolished in most of the provinces, and direct taxation has been substituted for them.

Besides these, there are taxes on animals and vehicles, taxes on professions and trades, tolls on roads and ferries, water rate, light rate, conservancy rates, and other minor taxes. Under special Acts the municipalities derive income from cattle-pounds, hackney carriages, and licenses for the sale of spirits and drugs. Most of the municipal bodies also derive income from rents of lands and houses, sale proceeds of municipal property, receipts from markets and slaughter-houses, fees from educational institutions, etc. Their income is often supplemented by grants from the Government.¹

The main objects for which municipal funds are spent are: Lighting, police, public health and convenience, including water supply, drainage, conservancy, hospitals and dispensaries, vaccination, prevention of plague, markets and gardens, the construction and maintenance of roads and buildings, and public instruction. Expenditure.

The total expenditure of the municipalities often slightly exceeds their ordinary income, and these bodies have frequently to apply to the Government for aid.

The incidence of the municipal rates and taxes Incidence of
Municipal
Taxation.

¹ The incomes of the municipalities of Calcutta, Bombay, Madras, and Rangoon are about 1 crore, 1½ crore, 45 lakhs, and 42 lakhs respectively. Calcutta had in 1912-13 a debt of nearly 5 crores, Bombay 6 crores, and Rangoon 2 crores.

on the population has been calculated as Rs.2 15 as. per head.¹

District and
Local Boards.

In rural areas, District and Local Boards² perform the duties assigned to municipalities in urban areas.

Income.

The funds of District and Local Boards are largely derived from rates or cesses levied upon agricultural land over and above the land revenue. From April, 1908, the accounts of the Boards have been excluded from the general provincial accounts, and their funds treated independently in the same way as municipal funds. The Government of India now make a grant-in-aid to the funds of all Boards equal approximately to one-fourth of their income from rates or cesses levied on land. The Boards have also other sources of income, such as cattle-pound receipts, educational receipts, medical receipts, tolls on ferries and bridges, and contributions for specific purposes from the provincial funds. Their aggregate income (exclusive of debt items) is about $5\frac{1}{4}$ crores.

Expenditure.

The expenditure of the Boards is chiefly for roads and bridges, hospitals, vaccination, conser-

¹ *Statistical Abstract for British India*, 1911-12, p. 101.

² The Boards contain a varying proportion of elected members in all provinces except Madras, where the elective system is applied only to members of District Boards. The total number of District Boards is at present 198, and of Local Boards 533. There are no Boards in Burma, and no Local Boards in the United Provinces and the N.-W. Frontier Province. Their functions are, in some respects, similar to those of the County Councils and Rural District Councils of England. Their powers, however, are much more restricted than those of the latter bodies.

vancy, drainage, water supply, primary education, markets, and rest-houses.

The incidence of the Boards' rates and cesses is 3½ as. per head of the population.¹

Incidence of
Boards'
Taxation.

The administration of the larger ports is placed by various Acts in the hands of Port Commissioners, who are charged with the provision of suitable dock accommodation, and other services necessary to shipping. The Port Commissioners are empowered, subject to the control of the Government, to levy dues on shipping and goods, to charge fees for services rendered, to contract loans for port improvement, to maintain the harbour and its approaches, and to erect warehouses, jetties, harbour lights, and docks, for the convenience of traders and shipping.

Port Trusts.

The chief Indian ports are Calcutta, Bombay, Karachi, Rangoon, and Madras. The approximate incomes of these ports are nearly 1½ crores, 90 lakhs, ½ crore, 45 lakhs, and 13 lakhs respectively.² Chittagong is also gradually rising into importance as a port.

Chief ports.

¹ *Statistical Abstract for British India*, 1911-12, p. 105.

² The Port Trusts have wide powers, but they are subject to control by the Government. Members of these Port Trusts are, for the most part, appointed by the Local Governments, and many of them are representatives of the local commercial communities.

CHAPTER XIII

THE STATE AND ECONOMICS

SOME of the economic functions of the Government have been discussed in the last chapter. The object of these functions, however, is more political than economic. In the present chapter, a brief account will be given of some of the more direct relations which economic phenomena bear to the State in India.

1. STATE-LANDLORDISM

Tendency
among officials
to regard
Government as
universal
landlord.

As we have already seen, there is a tendency among Indian officials to regard the Government as the ultimate proprietor of all lands, and to consider the revenue received by the State from the people as in the nature of rent. Attempts are often made to prove the correctness of the view by a reference to past history. The *Imperial Gazetteer* says, "Throughout the periods of native rule, for which we have any historical data, the prevailing custom was for the cultivator to deal direct with the representative of the State, and the whole of the economic rent passed straight from the one to the other. Even when there was an intermediary,

and when that intermediary enjoyed, to a greater or less degree, the other incidents of proprietary right, he seldom received any substantial share of the profits of cultivation, and such dues as he might intercept would more fittingly be classed as *fees* or perquisites than as *rent* in the proper sense of the term. As the several provinces passed under British rule, the Government at first continued the native practice of taking as land revenue the whole or nearly the whole of the economic rent. When the intermediaries were few or weak, the Government dealt direct with the cultivator, *e.g.* in *raiayatwari* tracts; where, on the other hand, the intermediaries were numerous and powerful, as in the *zamindari* tracts of Bengal and the provinces, the Government dealt with these intermediaries, leaving them to collect the rents from the cultivators, and, when paying the proceeds to the State, to retain a small proportion, generally 10 per cent., for their own use. It is from this percentage that payments now representing the net rental have developed." It goes on to say: "The peculiarity of Indian rents lies, therefore, in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."

If this theory of State-landlordism be correct, two results will legitimately follow—(a) the landlords will sink into the position of a merely superior kind

Legitimate
conclusions
from the
theory.

of tenants, and (b) the Government will be justified in demanding as its revenue the whole of the economic rent.¹

Mr. Baden-Powell's view.

But whatever may be the historical value of such a theory, the Government has never put forward a claim to the ultimate proprietorship of all land and to its right to an economic rent. As Mr. B. H. Baden-Powell, a great authority on the subject, says: "Nowhere and under no revenue system does the Government claim to take the unearned increment or the whole of what remains after the wages of labour or cost of cultivation and profits of capital have been accounted for."² The Government, as a matter of fact, bases its claim to land revenue on "the ancient right of the State to a share of the produce of the soil"—that is to say, on the historical fact that the rulers of successive Governments in India have at all times raised the greater part of their State income by levying a tax on the land.³

His stand-point.

Mr. Baden-Powell looks at the matter from a

¹ The Rt. Hon. E. S. Montagu, in a lecture delivered at the Liberal Colonial Club, London, in February, 1914, said: "The Government of India has succeeded to the position of premier partner in the land, not only with the rights but the corresponding duties of that position. I have shown how, in areas under a temporary settlement, it has been able to take in the form of revenue a large share of the unearned increment from the land; this is, of course, devoted to public purposes, the benefit of which is ultimately shared by the agriculturists."

² Baden-Powell, *Land Systems of British India*.

³ This share usually varied from one-sixth to one-tenth during the Hindu period, but was liable to be increased in time of war or of special necessity. Akbar raised this share to one-third of the produce.

practical point of view. He says, "The British Government has everywhere conferred or recognised a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is, then, impossible to say broadly that the State takes a *rent* from the landholders regarded as tenants. The Government is certainly not owner. . . . The utmost it does is to regard the land as hypothecated to itself as security, in the last resort, for the land revenue assessed upon it." He adds in the same strain: "After the Government has so distinctly conferred proprietary rights in land, any later use of the term 'universal landlord' applied to Government can only be in the nature of a metaphor. The only function of a landlord that the Government exercises is the general care for the progress of the State, making advances to enable the cultivator to sink wells or effect other improvements, advancing money for general agricultural purposes, suspending or remitting the demand for revenue owing to famine or calamity of season." Mr. Baden-Powell gives his final decision in the following sentences: "The land revenue cannot, then, be regarded as a rent, not even in the Raiyatwari lands. . . . I should be inclined to regard the charge as more in the nature of a *tax* on agricultural incomes."¹

Regarded from this standpoint, then, the Government is not the ultimate proprietor of all lands.

¹Baden-Powell, *Land Systems of British India*.

The Land
Revenue a
"tax."

No absolute
property in
land.

Now, the question arises, can we point to any class which has absolute proprietary rights to the land? Perhaps it would be safe to answer that there are hardly any absolute proprietors in India, but there are various grades of proprietary rights, each of a series of persons having some of the characteristics of a landowner.

Various grades
of proprietary
rights.

The proprietary rights may be divided into five main classes :

(i) The Government may be the direct owner.

(ii) The cultivator or landholder may be, for all practical purposes, considered as proprietor, paying revenue to the Government. This is the system which obtains in the raiyatwari tracts.

(iii) The Government may recognise one grade of proprietor between itself and the actual landholder. The most perfect example of this is found in the zemindar of Bengal.

(iv) The Government may recognise two grades of proprietors between itself and the actual landholder. This form is found in cases where the overlord's right has not developed so far as to make him sole landlord and all others mere tenants.

(v) The Government may recognise certain sub-proprietary rights, *e.g.* patni, dar-patni, etc.

Land tenures in India are largely the result of changes and growths. It very often happened that one set of rights was superimposed upon another, and thus the various grades came into existence.

2. PERMANENT ZAMINDARI SETTLEMENTS

During the early years of the East India Company's rule, the revenue settlement was made for very short periods, often for one year only. This system caused much inconvenience to the Government and great hardship to the people. The Directors of the Company realised the evils of the system, and in a letter to Lord Cornwallis they not only expressed their disapprobation of the frequent changes in the revenue settlements of Bengal, but condemned the endeavours which had been made to continually increase the land-tax. A remedy against famines, like the one of 1869-70, which carried off one-third of the population of Bengal and Behar and turned large areas of cultivated land into wild jungle, was also greatly needed. Lord Cornwallis took up the idea of a permanent settlement which had been advocated by Philip Francis. Three possible methods of settlement in Bengal were open to the Government: (a) a settlement with the raiyats, (b) a settlement with the farmers of revenue, and (c) a settlement with the zemindars. Mr. (afterwards Sir John) Shore advocated the last method as being the only one consistent with good government and the improvement of the country.

The early settlements.

Three possible methods.

The Permanent Settlement was introduced in Bengal in 1793, and extended to Benares in 1795. In promulgating the measure, the Government had two objects in view: (1) the security of the revenue; and (2) the improvement of the land. The hope was entertained that if the land revenue

The Permanent Settlement introduced, 1793.
Objects.

were fixed in perpetuity, the landlord would have the greatest inducement to improve his estate in the knowledge that anything he could make from his estate over and above the land-tax would be his private property, and not subject to any imposition by the State. Further, it was expected that this act of generosity on the part of the Government would induce the landowner to be generous towards his tenants.

Views of
earlier
officials.

The prevailing opinion of officials in the early years of the nineteenth century was that the measure had been attended with great success. The Commissioners of the Agra province in a circular letter said, "The Permanent Settlement concluded in the Bengal Provinces has notoriously been attended with the happiest success, and the flourishing state of those provinces must, we think, be ascribed, in an eminent degree, to that wise and salutary measure." They, therefore, recommended the extension of the measure to the Agra province. Many other officials also held the same view, and desired that the Permanent Settlement should be extended to the whole of India.

The present
official
attitude.

Later, however, the official view underwent a change; and at the present moment there is almost an unanimity of opinion among officials regarding the failure of the system. The present attitude of the Government towards the measure has been clearly expressed in the Note on the Land Revenue Policy of the Indian Government, 1902, issued in reply to certain criticisms of the late Mr. R. C. Dutt. The Note says: "The Government of India know of no ground whatever for the contention that Bengal has been saved from famine by the

Permanent Settlement, a contention which appears to them to be disproved by history; and they are not, therefore, disposed to attach much value to predictions as to the benefits that might have ensued had a similar settlement been extended elsewhere." "As regards the condition of cultivation in Bengal... there is still less ground for the contention that their position owing to the Permanent Settlement has been converted into one of exceptional comfort and prosperity. It is precisely because this was not the case, and so far from being generously treated by the zemindars the Bengal cultivator was rackrented, impoverished, and oppressed, that the Government of India felt compelled to intervene on his behalf."

"As for the allegation that the Permanent Settlement has been the means of developing in Bengal an exceptional flow of public-spirited and charitable investment, while the Government of India are proud of the fact that there are many worthy and liberal-minded landlords in Bengal as there are also in other parts of India, they know that the evil of absenteeism, of management of estates by unsympathetic agents, of unhappy relations between landlord and tenant, and of the multiplication of tenure-holders or middlemen between the zemindar and the cultivator in many and various degrees are at least as marked and as much on the increase there as elsewhere; and they cannot conscientiously endorse the proposition that, in the interest of the cultivator, that system of agrarian tenure should be held up as a public model, which is not supported by the experience

The experiment a failure.

of any civilised country, which is not justified by the single great experiment that has been made in India, and which was found in the latter case to place the tenant so unreservedly at the mercy of the landlord that the State has been compelled to employ for his protection a more stringent measure of legislation than has been found necessary in temporarily-settled areas."

Independent opinion.

Independent opinion is divided in respect of this question. One view is that it has most effectually safeguarded the economic welfare of the people. Mr. R. C. Dutt says, "If the object of the Permanent Settlement of 1793 was to create a thoroughly loyal class of landlords and a prosperous class of peasantry in Bengal, that object has succeeded beyond all expectation."¹ The earlier generations of Indian statesmen favoured this view; but the modern trend of Indian opinion seems to be to look upon the measure as a mistake. It has deprived the State of the unearned increment of the land, and has not conferred a proportionately large benefit on the great bulk of the people. Some people think that it would have been an ideal measure if it had been introduced without the intervention of zemindars.

J. S. Mill's view.

Mr. J. S. Mill wrote, "The measure proved a total failure as to the main effects which its well-meaning promoters expected from it. They flattered themselves that they had created throughout the Bengal provinces English landlords, and it proved that they had only created Irish ones. They did

¹ R. C. Dutt, *Famines in India*.

nothing for the improvement of their estate, but everything for their own ruin. In one generation the ancient zemindars had ceased to exist, and other families, mostly the descendants of Calcutta money-lenders, now occupy their place, and live as useless drones upon the soil which has been given up to them. Whatever the Government has sacrificed of its pecuniary claims for the creation of such a class has at the best been wasted.”¹

Mr. James Mill, in his *History of India*, said: “Next after the sovereign the immediate cultivators had by far the greatest portion of interest in the soil. The generous resolution was adopted of sacrificing to the improvement of the country the proprietary rights of the sovereign. The motives to improvement which property gives, of which the power was justly appreciated, might have been bestowed upon those . . . from whom alone the principal improvements in agriculture must be derived, the immediate cultivators of the soil. For the rights of the zemindars a complete compensation might have easily been made.”²

James Mill's
opinion.

So much for the defects of the system; but it undeniably has one good feature. As Mr. J. S. Mill says, “In this ill-judged measure there was one redeeming point. The ryots were reduced to the

One good
feature.

¹ *Vide J. S. Mill, Principles of Political Economy.*

² In England the land-tax was made perpetual in 1798, when William Pitt the Younger was the Prime Minister. According to Mr. R. C. Dutt, the English settlement has benefited the landed classes only, but the Bengal settlement has conferred a share of the benefit on the agricultural community.

rank of tenants of the zemindar, but tenants with fixity of tenure. In the parts of India into which the British rule has been more recently introduced, the blunder has been avoided of endowing a useless body of great landlords with gifts from the public revenue; but along with the evil the good also has been left undone."

The defects of temporary settlement system.

Though the Permanent Settlement is open to objection, the system of temporary settlements is not without its defects. The latter not only means expense and trouble, but the dislocation of business. It has, further, the tendency of checking the improvement of cultivation, and even of paralysing it by an uncertain and ever-increasing State demand. And the shorter the period for which settlements are made, the greater is the degree in which these evils appear. The only solution of the problem seems to be to make the settlements for fairly long periods, say, fifty years, so as to avoid the defects of both the extremes.

Practical solution : Long-period Settlements.

The zemindar's right to the soil.

Before leaving this subject, a few words may be said about the zemindar's right to the soil. A considerable difference of opinion exists regarding the question whether the zemindars were originally landlords in the English sense, or only farmers and collectors of revenue. In the great Rent Case of 1865, an authoritative opinion was delivered by the Calcutta High Court, in which the judges held the view that the Bengal zemindars were, in their origin, not true landowners, but revenue-farmers. Some Indian statesmen, however, regard them as having been real owners of the land, and, in some cases,

rulers of portions of the province. The view of the Government of Bengal was clearly expressed in their letter to the Government of India, dated the 24th of June, 1901, in which they said, "But the truth probably lies between the position adopted by the advocates of the two sides of the question, and while there were large numbers of middlemen suddenly converted into landholders, there were also hereditary chiefs with all the attributes of proprietorship that were known in their time in India."¹

Thus whatever may have been the original status of the zemindars, in practice they are and must be regarded as actual proprietors of the land they hold, subject to the right of the Government to land revenue, and of the tenant to whatever rights are vouchsafed to him by law and custom.

The zemindar
a limited
proprietor.

3. LAND-REVENUE SETTLEMENTS.

With reference to the land revenue, the tenures are divided into two kinds, *zamindari* and *raiyatwari*. When the revenue is assessed by the State on an individual or a community owning an estate and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; where the revenue is imposed on individuals who are, or who represent, the actual occupants of holdings, the assessment is known as *raiyatwari*. Under either system, there may be rent-paying sub-

Zamindari
and *raiyatwari*
tenures.

¹ Vide *Note on the Land Revenue Policy of the Government, 1902.*

tenants. The former system prevails in almost the whole of Bengal, in the United Provinces, the Punjab, the Central Provinces, and parts of Madras; while the latter is found in Bombay and Sind, Burma, Assam, Berar, and the greater part of Madras.

The Revenue Settlements: permanent and temporary.

The Revenue Settlements may be either permanent or temporary. The permanently-settled districts cover most of Bengal and parts of Madras and the United Provinces; while in the rest of India the settlement is for a period varying from ten to thirty years. About 20 per cent. of the total area is held by permanently-settled and 33 per cent. by temporarily-settled zamindari proprietors; while the remaining 47 per cent. is held by temporarily-settled raiyats (or peasant proprietors).¹

Nature of land revenue.

The land revenue appears to the ordinary person to be a tax on rent. But the officials hold a different view; they rather regard the rent as a deduction from the revenue. "The peculiarity of Indian rents lies in this fact, that whereas in most countries the land revenue is an assignment from the rent made by the landowners to the Government, in India the net rent is, historically speaking, a relinquishment of part of the profits of land by the Government to the landowners."²

Principles of assessment.

Assessment methods vary according to the kind of estate and its mode of working. But two general principles are found to underlie these methods. One

¹ The merits and demerits of the Permanent Settlement have already been discussed.

² *Imperial Gazetteer of India.*

is to fix empirical rates, which are first ascertained only as maximum rates, on the basis of those actually paid in the past, but with such increase as can now be taken with reference to the rise in prices and progress in prosperity, and then to apply those rates in a sliding scale, according to the productivity of particular lands. The other principle is applied to all varieties of landlord estate where there are tenants; it consists in finding out the rents which the tenants actually pay, and then demand from the landlords a fixed proportion of such rents.¹ Except in Bombay (where the assessment is not fixed in terms of produce), the land revenue is assessed so as to represent a share, not of the gross, but of the *net* produce (or net assets).²

In the temporary zamindari settlements, the Government usually takes about 50 per cent. of the rent as revenue; and in the permanent settlements about 25 per cent. of the rental on an average. The rates of revenue vary greatly with the productive power of the soil, advantages of climate and irrigation, and facilities for marketing produce.³

The question of the burden of the land revenue is one of the most controversial questions in Indian economics and politics. Many of the Indian patriots hold that the burden is oppressive, that it is one of the causes of the extreme poverty

Assessment
rates.

The burden,

¹ B. H. Baden-Powell, *Land Revenue in British India*, pp. 47, 48.

² *Moral and Material Progress and Condition of India*, 1914, p. 28.

³ For details of the incidence of Land Revenue, see Appendix.
I.E. R

of the masses of the people, and that it is a contributory cause of famines. On the other hand, the officials maintain that the land revenue is not excessive, and that latterly it has become increasingly liberal.¹ It has been calculated that the burden of

¹ *Vide* R. C. Dutt, *Open Letters to Lord Curzon and the Land Revenue Policy of the Government of India*, 1902. A memorial was submitted by a number of retired high officials of the Government in which they urged that (i) where Land Revenue is paid directly by the cultivators the Government demand should be limited to 50 per cent. of the value of the nett produce, after a liberal deduction for cultivation expenses has been made, and should not ordinarily exceed one-fifth of the gross produce; (ii) where the Land Revenue is paid by landlords, the principle adopted in the Saharanpur Rules of 1855, whereby the Revenue demand is limited to one-half of the actual rent or assets of such landlords, should be universally applied; (iii) no revision of the Land Tax of any province or part thereof should be made within thirty years of the expiration of any former revision; (iv) when such revision is made there should be no increase in the assessment except in cases where the land has increased in value (a) in consequence of improvements in irrigation works carried out at the expense of the Government, or (b) on account of a rise in the value of produce; and (v) that a limit be fixed beyond which it may not be permissible to surcharge the land-tax with local cesses. The official reply to these recommendations was the following: (1) The suggestion that the land-revenue should be fixed at a share of the produce is impracticable, and would, if accepted, lead to the placing of burdens on the shoulders of the people, from which, under a less rigid system, if sympathetically administered, they are exempt. (2) The Saharanpur Rules, issued in 1855 (so called because they were issued in connection with the resettlement of the land revenue in the Saharanpur district of the United Provinces), laid down "not that the revenue of each estate is to be fixed as one-half of the net average assets, but in taking these assets with other data into consideration, the Collector will bear in mind that about one-half, and not

the land revenue per head of the population of British India is under Re. 1 4 as. (1s. 8d.).¹ per head.

4. TENANCY LEGISLATION²

The object of the tenancy laws of the government in India is to protect the tenant against the effects of an unfair competition, and to secure to him the rights conferred by custom. As a large

Object of
Tenancy Laws.

two-thirds as before, of the well-ascertained net assets should be the Government demand," and the Rules do not prevent them from demanding more than 50 per cent. (3) The considerations which determine the term of settlement are: "Where the land is fully cultivated, rents are fair, and agricultural production not liable to violent oscillations, it is sufficient if the demands of the Government are re-adjusted once in thirty years, i.e. once in the lifetime of a generation, and where the opposite conditions prevail, where there are much waste land, low rents, and a fluctuating cultivation, or again where there is a rapid development of resources owing to the construction of roads, railways, or canals, or to an increase of population, or to a rise in prices, the postponement of re-settlement for so long a period as thirty years is both injurious to the people, who are unequal to the strain of a short enhancement, and unjust to the general taxpayer, who is temporarily deprived of the additional revenue to which he has a legitimate claim." (4) To deny the right of the State to a share in the unearned increment of land would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted partly from the actions of the Government and partly from a rise in the standard of civilisation. (5) The aim of local taxation is the benefit of the community, and to place an absolute limit to such taxation would be against the interests of the people.

¹ *Moral and Material Progress of India*, 1914, p. 28.

² *Vide* Baden-Powell, *Land Systems of British India and the Tenancy and Rent Acts of the different Provincial Governments*.

proportion of the population is connected with the land, a summary of the legislative provisions relating to land will perhaps be found useful.

Origin of
tenures.

We have already seen that landlord and overlord rights grow up over, and often at the expense of, other rights in land. As time goes on, some of the landlords become predominant, and the rest of the original landholders tend more and more to sink into non-proprietary cultivators or tenants. A certain number of such tenants, however, succeed in asserting themselves, and wresting from the landlords permanent tenures.

The twelve
years' rule in
Bengal and
Agra province.

It is very difficult to draw a line between the tenants who represent the old landowners and those whose position is due to contract. In Bengal and the Agra Province the legislature has avoided the difficulty by enacting a general rule that where any tenant has continuously held the same land for twelve years, he should be regarded in all cases as an Occupancy Tenant. In the Punjab and Oudh, however, the twelve years' rule does not apply; and in the Central Provinces it is only applied in a special and limited way. But in these provinces a number of privileged landholders are recognised as sub-proprietors.

In Bengal three
classes of ten-
ants: (1) Ten-
ure-holders,
(2) Ryots, (3)
Under-ryots.
Ryots sub-
divided into
(a) Ryots at
fixed rates, (b)
Occupancy
ryots,

The tenancy law of Bengal divides tenants into three classes: (1) Tenure-holders; (2) Ryots; and (3) Under-ryots. The ryots, again, are divided into (a) Ryots holding at fixed rates (that is, either at a rent fixed in perpetuity or a rate of rent fixed in perpetuity); (b) Occupancy-ryots, that is, ryots having a right of occupancy in the land held by

them; and (c) Non-occupancy ryots. There is, in addition, another class, namely Settled Ryots, that is, those who have for a period of twelve years held as ryots lands situated in any village.

(c) Non-occupancy ryots.

A Tenure-holder is a person who has acquired from a proprietor or from another tenure-holder a right to hold land for the purpose of collecting rents or bringing it under cultivation by establishing tenants on it; and the term includes the successors in interest of persons who have acquired such rights.

Definitions of the terms.

A Ryot is a person who has acquired the right to hold land for the purpose of cultivating it by himself or by members of his family, or by hired servants, or with the aid of partners; and the term includes the successors in interest of persons who have acquired such rights.

Under-ryots are tenants holding land, whether immediately or mediately, under a Ryot.

In Bengal, ryots at fixed rates are the highest class of tenants, and have practically very much the same privileges as the tenure-holder. The rent cannot be enhanced and the holder cannot be ejected, except for some express breach of the conditions of tenancy. All other privileged tenants are grouped together as occupancy tenants. The rest of the tenants are tenants-at-will, who have only the benefit of some protective provisions, *e.g.* notice of ejectment of not less than six months, etc.

Privileges of Ryots at fixed rates.

In the permanently-settled districts of the Agra province, there are certain tenants at fixed rates, just as in Bengal. All other tenants, if they have

Tenant law in Agra province.

held the same lands for twelve years, are occupancy tenants. Tenants of less standing are tenants-at-will. There is also another class, namely, ex-proprietary tenants, who are occupancy tenants in possession of land of which they had once been proprietors; and they have the privilege of a reduced rent (which is usually 25 per cent. below that of ordinary tenants).

in C.P.,

In the Central Provinces, the landowners or Malguzar proprietors have a strictly limited control over a large part of the tenantry, both as regards raising of rents and ejectment. Ejectment of the tenants of the privileged classes can only be effected by a decree of court on very special grounds, and enhancement of rent is restricted. The Central Provinces Tenancy Act mentions specifically *absolute occupancy tenants* who cannot be ejected for any cause whatever, and whose rent must be fixed for the term of settlement. The next class is that of the *ordinary occupancy tenants*. The rights of this class, however, are not growing as in Bengal and the Agra Province. Tenants holding land as a remuneration for village service are specifically recognised in this Act. Ordinary (that is non-occupancy) tenants are protected in various ways.

in the Punjab,

In the Punjab, the occupancy right is purely of natural growth. The Punjab law defines as *occupancy tenants* those who for two generations have paid neither rent nor service to the proprietor, but only shares of the land-revenue, those who are ex-proprietors, those who had settled along with the founder and aided in the first clearing, and those

who had been revenue-assignees and had remained in possession of the land. These naturally-entitled classes are given different degrees of privilege.

In Madras, every tenant is allowed to have in Madras, whatever privilege he can prove. There is no artificial rule about the rate of rent or the limit of enhancement. All contracts, express or implied, are enforced. If there is no contract, the rate is to be that of the Government assessment, or, failing that, the customary rate of the locality. Tenants in general can only be ejected pursuant to a decree of court, but they can always relinquish the land at the end of the year.

In Bombay, the holder of the land is either in Bombay, a direct occupant paying revenue to the Government, or is an inferior occupant paying rent to some superior. In the latter case, if there is an agreement, the terms alone determine the features, rent-charges, and liabilities of the tenancy; if not, then the usage of the locality is referred to.

In Oudh, an attempt was at first made to intro- in Oudh. duce the policy of the Agra Province of ignoring the overlords and dealing with the villagers as proprietors, but after the Mutiny a settlement was made with the Talukdars. This necessitated an elaborate series of provisions as to the protection to be afforded to tenants in the Taluks. The rights of the tenants were recognised and protected by the tenant law of 1886, which ensured permanent occupancy to hereditary tenants, and the limitation of their rents.

5. FAMINES : RELIEF AND PREVENTION.

History of
Famines :
Hindu Period.

During the Hindu period of her history, India did not enjoy absolute immunity from famines. But judging from the infrequency of allusions to these calamities in the ancient Sanskrit works, as well as the testimony of foreign travellers,¹ it would not be unsafe to make the assertion that famines were exceptional occurrences in ancient India. When they did occur, adequate relief measures were undertaken by the State. Chanakya, in his *Arthashastra*, mentions the following among other remedial and relief measures: (i) remission of taxes, (ii) emigration, (iii) the granting of money and grain from State funds, (iv) construction of artificial lakes, tanks, wells, etc., and (v) the importation of grain from other places.²

Mahomedan
Rule.

The historians of the Mahomedan period have left records of several famines, four of which were very severe. The first occurred in 1343, when the well-meaning but half-insane Muhammad Tughlak was the sovereign of Northern India. The distress was of a most acute character, but the Sultan was not slow to organise relief measures on an extensive scale. He "ordered provisions for six months to be distributed to all the population of Delhi."³

¹ Megasthenes says: "Famine has never visited India and there has never been a general scarcity in the supply of nourishing food" (M'Crimble, *Ancient India as described by Megasthenes and Arrian*).

² Kautilya, *Arthashastra*, bk. 4, ch. 3.

³ "The Judges, Secretaries, and other Officers inspected all the stores and markets, and supplied to every person provisions for half a year" (Elliott, *History of India*).

During the reign of Akbar, "there was a scarcity of rain throughout the whole of Hindustan, and a fearful famine raged continuously for three or four years." The King ordered that alms should be distributed in all the cities; and Nawab Sheikh Farid Bokhari, being ordered to superintend and control their distribution, did all in his power to relieve the general distress of the people."¹ The fifth year of the reign of Shah Jehan witnessed one of the greatest famines recorded in history. It afflicted almost the whole of India, and, in spite of the vigorous measures of relief adopted by the Emperor, a prodigious mortality ensued. There was another great famine in the reign of Aurangzebe. James Mill thus writes of the measures adopted to cope with this calamity: "The prudence of Aurangzebe, if his preceding actions will not permit us to call it his humanity, suggested to him the utmost activity of beneficence on this calamitous occasion. The rents of the husbandmen, and other taxes, were remitted. The treasury of the Emperor was opened without limit; corn was bought in the provinces where the produce was best, conveyed to those in which it was most defective, and distributed to the people at reduced prices."

During the rule of the East India Company, "India suffered, in one part or another, from twelve famines and four severe scarcities."² The first of these was the dreadful calamity of 1770, "by which 1770. more than a third of the inhabitants of Bengal

East India
Company's
Rule.

¹ Dowson, *History of India*.

² *Report of Famine Commission*, 1901, p. 1.

- were computed to have been destroyed.”¹ Although signals of the impending disaster had been received in 1769, nothing had been done to check the famine, and even when distress became acute, no relief measures on an adequate scale were adopted.² In Madras, 1781
1784. and 1782 were years of severe scarcity; and in 1784 a severe famine devastated the whole of Northern India. A drought in Madras and Hyderabad
1792. 1791 was followed by an intense famine the next year. It was on this occasion that relief-works were first opened by the Madras Government for
1802-3. the support of the famine-stricken. In 1802-3 a failure of rains led to famine in Bombay and scarcity in Madras, which were followed the next year by a widely extended famine in the North-Western provinces and Oudh. The measures adopted on this occasion consisted in making remissions of the revenue, in giving loans and advances to land-owners, in offering a bounty on all grain imported into Benares, Allahabad, Cawnpore and Fatehgarh. In 1806-7, there was a severe scarcity in some districts of Madras.³ The next great famine was

¹ James Mill, *History of India*.

² The price of common rice rose from 40 seers per rupee to 3½ seers. In the plentiful year of 1714, coarse rice had sold at 120 seers the rupee, and wheat 90 seers. *Vide* Col. Baird Smith's *Report*, Sect. II., p. 29.

³ This scarcity gave the occasion for a discussion regarding interference with private trade. The Government at the outset declared against any interference, but in the end they conceived it necessary to purchase grain, guaranteeing a minimum price to importers. The principle of non-intervention in trade was followed in 1812-13 and 1824-25.

that of 1833, known as the "Guntur famine." It 1833.
 affected the northern districts of Madras, and parts
 of the Southern Mahratta country, and of Mysore
 and Hyderabad. The severity of the calamity was
 not recognised by the Government till it was too
 late, with the result that 200,000 persons died in
 Guntur out of a population of 500,000.¹ In 1837 1837.
 there was a severe famine in Upper India. Public
 works were opened at several centres, but the work
 of relieving the helpless and the infirm was left in
 the hands of the charitable public. The mortality
 was great, and the extremity of suffering endured by
 the people was such as to leave behind a wide-
 spread and lasting recollection of the horrors of the
 calamity.² In 1854, a famine, severe, though limited 1854.
 in area, visited Northern Madras.

Since the transfer of the administration of India Direct British
 from the Company to the Crown, there have been adminis-
 ten important famines, besides a large number of tration.
 severe scarcities. The first famine occurred in
 1860-61, the chief area affected being that between 1860-61.
 Delhi and Agra. This was the first famine in
 British India during which poor-houses were used
 as a means of relief; and it was also the first occasion
 on which the authorities thought fit to enquire into
 the causes, area, and intensity of the famine, as
 well as the measures to be adopted to cope with
 distress, Col. Baird Smith being placed on deputa-
 tion for the purpose. A drought in 1865 was 1865.
 followed the next year by a severe famine. The

¹ *Report of Famine Commission*, 1880, p. 10.

² *Report of Famine Commission*, 1880.

calamity fell with the greatest intensity on Orissa, hence its name, the "Orissa famine"; but it also affected Madras, Northern Bengal and Behar. The officials, although forewarned, took no steps to meet the approach of the calamity, so that when it came they were absolutely helpless. It was estimated that about a million persons died in Orissa alone.

1868.

A year had hardly elapsed before Northern and Central India was visited by one of the most widespread and grievous famines on record. The conditions were the worst in Rajputana and Central India, where there was an entire loss of crops as well as of fodder and grass, besides a dearth of water; and to add to the miseries of the people, an epidemic of cholera broke out and spread in all directions. Prompt action was taken by the Government to relieve distress, but the relief given was hardly commensurate with the magnitude of the distress, and there was considerable loss of life.

1873.

In 1873, Behar and the eastern districts of the United Provinces were afflicted with a famine. The Bengal Government, however, took prompt action, and carried out relief measures on a scale and with a thoroughness which had never been equalled before. The total cost of the relief measures amounted to nearly 10 crores. The great

1876-78.

famine of 1876-78 was, in respect of the area and the population affected, as well as the duration and the intensity of the distress, the most grievous calamity experienced since the beginning of the nineteenth century. It affected Madras, Bombay,

the United Provinces and the Punjab. The relief measures on this occasion were insufficient and imperfectly organised. The Government refused to recognise their responsibility for saving human lives, and declared with cynical calmness that "the task of saving life, irrespective of cost, is one which is beyond their power to undertake, and that in the interests of the distressed population itself, as well as of the taxpayers generally, the Government of India was bound to adopt precaution against indolence or imposition."¹ Small wonder that a fearful mortality was the result of the adoption of such a policy!

Between 1878 and 1896, there were two famines and five scarcities, all of them of a more or less local character. The great famine of 1896-97 affected almost every province, though in varying degrees of intensity, the population sorely afflicted being estimated at 34 millions. In addition to the opening of public works at various centres, gratuitous relief was given extensively, and in many parts of the country people were relieved in their own homes. The relief operations were conducted with a fair measure of success, except in the Central Provinces where the death-rate rose very high above the normal.² The total cost of relief measures was 7·27 crores.³

¹ Vide *Report of the Famine Commission*, 1901.

² *Famine Commission Report*, 1898, p. 196.

³ "Relief was given to 821 millions of persons at an average cost of 1·42 annas a day for each person relieved" (*Report of the Famine Commission*, 1898).

Following closely upon this came another calamity of the severest type, namely, the famine of 1899-1900. The area and population affected were, roughly, 189,000 square miles and 28 millions respectively. The authorities failed and, in some cases, refused to open relief works in the early stages of the famine; and when they were opened, such vast numbers came on them that the system almost completely broke down in many cases. The total expenditure amounted to 10 crores, and the excess of mortality over the normal was 1,236,855. Several famines and scarcities of a local character occurred after 1900, those of 1906-7 and 1907-8 being the most important. It was not, however, considered necessary to adopt any large scheme of relief on any of these occasions.

1899-1900.
1906-7.
1907-08.

Famines
recurring
calamities.

From this brief sketch it is evident that famines are frequently recurring calamities in India. It was estimated by the Famine Commissioners of 1880 that, on an average, there are two bad seasons to seven good, and one-twelfth of the population may be approximately taken as the portion affected by each famine. Some provinces are more liable to these calamities than others, but hardly a year passes in which some part or other of the country does not, in some degree, suffer from a famine or a scarcity. The more important famines come at irregular intervals,¹ though not without warning.*

Signals.

The first signal of an approaching famine is a

¹It has sometimes been suggested that famines occur in cycles, but, as the Commission of 1880 remarked, our knowledge of the periodicity of past famines does not enable us to calculate such cycles.

failure of rains, followed by a failure of crops. Prices rise high, and the less efficient among the labourers, finding no employment, swell the ranks of beggars. At the same time there is a contraction of credit and of private charity. Theft and robbery increase, and a general restlessness is visible among the people. There is also a deterioration in the health of the people, which often leads to epidemics of a serious kind.

In order to cope with famines, all the provinces have their Famine Codes,¹ which, differing in minor details, agree in all essential matters. They prescribe the precautionary or preparatory arrangements to be permanently maintained in ordinary times, and the steps to be taken when the information received indicates the imminence of scarcity or famine. They also lay down the duties of all officers concerned when famine or scarcity is actually present, and the various measures of relief to be adopted.

Famine Codes.

As soon as the Local Government are able to read the first signals of an approaching famine or scarcity, it is their duty to take the necessary steps for meeting it. The Famine Commissions recommended a plan of work which may be briefly described thus: During the first stage

Relief Measures.

First stage.

(i) liberal advances should be given for the construction of temporary, and the repair of permanent, wells; and for other village improvements;

(ii) non-official co-operation should be enlisted and the organisation of public charity should be vigorously taken in hand;

¹ In 1883, the provincial famine codes were first promulgated. Since then, they have undergone several revisions.

(iii) liberal advances should be given for the purchase of seed for the ensuing crop ;

(iv) the police should be supplied with funds to relieve wanderers in distress ;

(v) test works should be started, and poor-houses should be opened at the chief centres of population ;

(vi) inquiries as to suspensions of revenue should be begun ;

(vii) relief circles should be organised, and the necessary inspections should be made ;

(viii) preliminary lists should be drawn up of persons eligible for gratuitous relief ;

(ix) if there are threatenings of a scarcity of fodder or drinking water, steps should be taken to meet it and to encourage private enterprise to import fodder and to develop the water-supply.

Second stage.

Relief Works.

The object of test works is "not to relieve famine, but to test the presence of it: not to relieve hunger, but to find out whether people are hungry." Directly the numbers attending test works indicate that further relief measures are necessary, test works should be converted into relief works, which are the backbone of famine-relief administration. All who apply and are capable of working should be admitted to relief works, and tasks and wages should be graduated according to their respective strength and physical requirements. The fundamental principle of the famine wage is that "the lowest amount sufficient to maintain health" should be given. Relief works should be of two kinds, public works and village works. The former would be works under the control of the Public Works Department, and

would engage large numbers of people. The latter would be under the revenue authorities and would be local works of use to a particular village or group of villages.

The distribution of gratuitous relief should also begin when test works are converted into relief works; and care should be taken to see that all persons entitled by the Code to receive it are brought upon the list. These are persons having no relatives able and bound to support them, who are incapacitated by physical infirmity, or by their presence at home being necessary to attend on sick or infant children, from earning a subsistence on relief works. Gratuitous relief.

Poor-houses also should at the same time be started at all convenient centres for the reception of persons unfit to work, who either have no homes or cannot conveniently be sent to their homes, and of persons in need of relief who, though fit, refuse to labour.¹ Poor-houses.

Of the minor measures of relief, the most important is that of kitchens, intended mainly for the dependents of persons engaged on the relief works. The other measures are (a) gratuities or semi-gratuitous relief to *purdanashin* women, (b) relief to respectable men, (c) relief to artisans, (d) relief to weavers, and (e) temporary orphanages. Kitchens and minor measures.

Before the rains break, and in time for the Last stage.

¹The Famine Commissioners of 1901 observed in this connection: "We were struck by the failure of the local officers in Bombay in this respect . . . a failure which was one of the causes of the great mortality in Gujrat" (*Report*, p. 20).

prudent use of the money, large *takavi* advances should be given for cattle and seed, and Charitable Fund donations should be distributed. At the beginning of the monsoon, people may be induced to leave the relief works, provided the necessary pressure is used with the greatest caution and safeguarded by a large extension of gratuitous relief. After the necessity for State relief has completely ceased with the growth of new crops, all relief operations should be closed.

Foresight,
energy, and
sympathy
essential for
success.

The rules recommended by the several Famine Commissions and embodied in the Famine Codes leave very little to be desired. But in practice the success of operations depends very largely upon the foresight, energy, and sympathy of the executive officers of the Government. In this connection three things are necessary to be borne in mind : first, that it is desirable to take steps for warding off a calamity, if possible ; secondly, that it is ultimately economical to start relief operations early ; and thirdly, that for preventing loss of life and preserving the health and strength of the people, relief ought to be given liberally.

Causes and
Remedies :
(i) Physical.

We ought not, however, to rest content with mere palliatives. Prevention is always better than cure, and it would certainly be wise to find out the root-causes of these calamities and to adopt the necessary preventive measures. Of course, the most obvious and direct cause is drought, that is to say, the late commencement, or insufficiency, or early cessation of the monsoon rains. Disforestation has been pronounced by experts as a cause of

insufficient rainfall; and a more perfect system of afforestation than has hitherto been practised will, it is believed, go a long way towards preventing drought. The artificial supply of water by means of irrigation is of even greater importance; and although much has been done in this matter, there is still room for more work. The Famine Commissioners of 1901 said: "All provinces do not, indeed, present practicable schemes for the construction of great canals; but the possibility of smaller protective works has in no province been exhausted, while in some provinces they have as yet hardly been examined. For storage tanks, reservoirs, and, above all, irrigation wells, the scope and the necessity are very great." Improved methods of agriculture and the adoption of a system of "dry cultivation" are also needed to ensure the production of crops. Sometimes, crops are destroyed by floods, against which an efficient system of drainage is the only safeguard. Insect pests have also been known to be destructive to crops, but with the aid of science it ought not to be very difficult to check this evil.

Important as these physical causes are, the chief (ii.) *Economic*. cause of famines is an economic one. Drought or excessive rainfall may be responsible for the insufficient production of crops in certain areas, but the main reason for the heavy mortality and the intense suffering which accompany a failure of crops is to be found in the fact that the people have no reserve power. The Famine Commissioners of 1880¹ held that there was enough food

Crop famines
or Money
famines?

¹ *Report of Famine Commission, 1880, p. 59.*

in the country to feed the entire population, even in the worst years; and the Famine Commissioners of 1898 concurring in this view, remarked, "We think that the surplus produce of India, taken as a whole, still furnishes ample means of meeting the demands of any part of the country likely to suffer from famine at any one time, supposing such famine to be not greater in extent and duration than any hitherto experienced."¹ The calamities which devastate the country from time to time are not, therefore, crop famines, but money famines. It is not the lack of food which the people suffer from, but the want of resources with which to buy food. Speaking of the poverty of the cultivator, the Famine Commissioners of 1901 said, "In good years he has nothing to hope for except a bare subsistence; in bad years, like last year, he falls back on public charity." But there is a class of persons whose condition is much worse than that of cultivators, namely, the landless labourers. This class is, in fact, the first to succumb to the effects of a famine. And it is not only these sections of the community but almost all sections that are affected, in a greater or less degree, by famines.

General
poverty the
main cause.

Whatever differences of opinion may exist about the improvement in recent years of the material condition of the people, that there is still a dense mass of poverty is admitted on all hands. Now this general poverty can be traced to several causes. The great bulk of the people are dependent on agriculture; and agriculture as a profession is not

¹ *Report of Famine Commission, 1898, p. 358.*

so remunerative as manufactures are. Most of the old handicrafts have died out, and only a few modern industries have as yet been established. The population of the country has considerably increased, but it has not been accompanied by a proportionate increase in the wealth of the country. Again, a costly system of administration has necessitated the imposition of a heavy burden of taxation, and the annual drain of wealth leaves the country poorer and poorer as one year succeeds another. Lastly, litigation, the custom of early marriage, and those social habits which prompt improvident expenditure in ceremonial functions, add largely to the miseries of the people.

Several measures can be suggested for combating the poverty evil. Besides introducing improvements in the method of agriculture and extending the cultivated area, every effort should be made to diversify the occupations of the people. The Government and the people should join hands in establishing manufactures of various sorts,—large-scale industries, as well as small handicrafts and cottage industries. As Sir H. S. Cunningham said, "The direct, deliberate and systematic promotion of industrial enterprise is not a less important duty, and its thorough recognition by the State would, I believe, be the most important administrative reform of which the Indian system is capable." A reduction of public expenditure and of the amount of the annual drain is urgently needed so as to make a reduction of taxation possible. Greater moderation in the assessment of the land revenue,

Measures for
combating
poverty.

together with less rigidity in its collection in bad years, and, if possible, a definite limitation of the share of the State in the income derived from the land, will ensure to the cultivator the fruits of his labour and greatly improve his economic condition. Emigration, if properly organised, will appreciably help to relieve the pressure of the population on the soil. The extension of co-operative credit will be very useful in checking indebtedness and promoting thrift among villagers. The establishment of Arbitration Courts will decrease ruinous litigation. And, lastly, it is to be hoped that the leaders of society will take active steps to root out evil customs, wherever prevalent.

Effects of
famines.

In some quarters there is a tendency to regard the famine question as identical with the question of unemployment. A famine does, no doubt, throw workers out of employment; but, unlike the unemployment which one finds in England and Germany, it affects millions of men, and the magnitude of the distress which ensues is unimaginable in modern Europe. Hundreds of thousands of people succumb to starvation or to diseases which lie in the wake of famines, and those who are left behind remain in a condition more miserable than before,—their resources crippled, health shattered, and capacity for work greatly impaired. A famine also means much to the Government. Loss of revenue and increase of expenditure combine to dislocate its finances. It would be extremely unwise, therefore, to minimise the importance of this serious question. And if science and state efforts have succeeded in

Prevention
necessary
and possible.

making famines an impossibility in modern Europe, there is no reason why they should be allowed to continue their ravages in India.

6. CO-OPERATIVE CREDIT

Credit is an absolute necessity in all agricultural countries, and this is especially the case in India. Easy and cheap credit, however, has a great danger. It may lead to reckless borrowing, which would mean the ultimate ruin of the borrower. In order to supply the agriculturist with easy and cheap credit, at the same time eliminating the danger of reckless borrowing, philanthropists in Europe tried various schemes about the middle of the last century. Of these, the schemes of Raiffeisen and Schulze-Delitzsch have proved the most successful. Many years ago, Sir William Wedderburn, Mr. Justice Ranade and other statesmen advocated the establishment of credit institutions in India on the lines of these societies. In 1892, the subject attracted the attention of the Government of India, and they appointed Mr. (afterwards Sir) Frederick Nicholson to enquire and report on the matter. His Report was submitted in 1895. He said in the Report: "The lesson of universal agricultural history is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact, that agriculturists must borrow. This study assumes as axiomatic that the peasantry of India have, by the very conditions of their

Credit an absolute necessity in India.

Sir F. Nicholson's Report.

existence in tenure, to borrow and borrow freely, annually, and continuously.”¹

Advantages of
Village Banks.

The State or Central Banks, would of necessity be situated far away from the village, and thus would not possess the advantages which are possessed by Village Banks.² They are:

- (i) Absolute proximity to the borrower.
- (ii) Their ability to excite local confidence and consequently to draw in local capital.
- (iii) Their exact knowledge of the clients and their influence over them as co-villagers.
- (iv) Their ability to work cheaply—almost gratuitously—and thus to provide cheap credit.
- (v) Retention of local capital and all profits thereon within the village.
- (vi) Their ability to act as agents and brokers for their members in the sale of produce and purchase of necessities.
- (vii) Their capacity for acting as village granaries.
- (viii) Their ability to act as intermediaries between the State and the individual in agricultural or industrial developments, or in times of seasonal stress.
- (ix) Their power of influencing borrowers towards the true use of credit and of watching the utilisation of loans in accordance with contract.
- (x) Their ability to prevent fraudulent default.
- (xi) Their steady educative influence in matters of thrift, association, and self-help.

¹ For an account of the co-operative societies in Europe, see Wolff, *People's Banks*.

² *Vide* Sir F. Nicholson's Report.

(xii) Their tendency to develop high forms of individual capacity, public life, and national character.

When the Government of India became fully convinced of the benefits of such institutions, the Co-operative Credit Societies Act was passed in 1904, with the hearty approval of all sections of the community. This Act divided the Societies into (1) Central, (2) Urban, and (3) Rural. The Act of 1912, however, substituted for the distinction between Urban and Rural Societies the division of Societies into (i) those with Limited Liability and (ii) those with Unlimited Liability. Under its provisions, unless the Local Government by general or special order otherwise directs,

Co-operative
Credit Socie-
ties Acts, 1904
and 1912.

Limited and
Unlimited
Liability
Societies.

(i) The liability of a society of which a member in a society is limited; and

(ii) The liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, is unlimited.

The conditions of registration are (i) that not less than ten persons can form a society, (ii) they must be above the age of 18 years, and (iii) they must either reside in the same town or village or group of villages, or must belong to the same tribe, class, caste, or occupation.

Registration.

The management of these Societies is democratic. It is in the hands of the members themselves, who appoint from their own body a Committee to do the work for one year. The members of the Managing

Management.

Committee receive no remuneration for their work. No member has usually more than one vote; but where the liability is limited, a member may have more than one vote, if prescribed by the bye-laws.

**Audit and
Supervision.**

The accounts of every Society are audited by, or by order of, the Registrar, who at all times has access to all the books, accounts, papers, etc.

Privileges.

The main privileges of these Societies are :

(a) They are bodies corporate, that is to say, they have perpetual succession, common seal, legal right to make contracts, etc.

(b) A registered Society is entitled in priority to other creditors to enforce any outstanding demand due to the Society from a member or a past member (subject to any prior claim of the Government in respect of Land Revenue).

(c) The shares are not liable to attachment.

(d) On the death of a member, his share is transferred to his heir.

(e) The Societies may be exempted from the payment of income-tax, stamp duty, and registration fees.

Liabilities.

As the members have privileges, they have liabilities. These liabilities are limited or unlimited, according to the class into which a Society falls. A past member is liable for the debts of a Society for a period of two years, and the estate of a deceased member is liable for one year.

**Restrictions
on work.**

There are certain restrictions on lending and borrowing. No Society with unlimited liability

is permitted to lend money on the security of movable property. The Local Government may also impose other restrictions. Borrowing must be made to such an extent and under such conditions as may be prescribed by the bye-laws.

The funds of the Societies may be invested in the Government Savings Banks, in any of the institutions prescribed by the Indian Trusts Act, in the shares or on the securities of any other registered Society, with any Bank or person approved by the Registrar, or in any other way permitted by the bye-laws.

Investment
of Funds.

No part of the funds may be divided by way of *bonus* or *dividend* or otherwise among its members; provided that after one-fourth of the net profits in any year has been carried to a *Reserve Fund*, payment from the remainder of such profits and from profits of past years may be made among the members to such extent and under such conditions as may be prescribed by the bye-laws; provided also that in the case of a Society with unlimited liability, no distribution of profits may be made without the order of the Local Government. Such Societies may, with the sanction of the Registrar, after one-fourth of the net profits has been carried to a Reserve Fund, contribute an amount not exceeding 10 per cent. of the remaining profits to charitable purposes.

Use of Profits.

In order to finance the Co-operative Credit Societies, a few Central Banks have been started, but many more of such institutions are wanted. They bring individual Societies into touch with the

Financing of
Societies.

general money market and also serve as distributing centres for their balances. The Government also lend money to these Societies at low rates of interest.

Progress of
Co-operative
Credit.

The Resolution¹ recently published by the Government of India shows that the Co-operative movement has taken firm root in India. In the words of the Resolution, ten years ago there was nothing beyond a few scattered experiments to indicate the presence of the Co-operative movement in India: to-day there are over twelve thousand Societies, with nearly six hundred thousand members, and with a working capital of over five crores of rupees. There has been a brisk demand for the creation of new Societies, but it has been found advisable to move with cautious steps. It is true that there is still only one agricultural Co-operative Credit Society in India for every 20,000 of the population engaged in agriculture, whereas in Italy there are 18, and in Germany 52; but it must be remembered that the movement in India is still at its beginning.

Economic
benefits.

In respect of economic benefits, it has been calculated that in interest alone the agriculturists, by taking loans from the Co-operative Societies instead of from the village money-lenders, are even now saving themselves from the burden of at least 20 lakhs of rupees per annum; and there is no reason why in a few years this figure should not multiply itself several times over. Besides, with the progress of Co-operation and with credit

¹ *Gazette of India*, dated June 27, 1914.

democratised, money that had lain in hoards has been produced and placed in deposit, capital that would otherwise have been inaccessible has come into the hands of the agriculturist, and old debts have been paid and old mortgages have been redeemed. Co-operation has placed within reach of the cultivators cheap manures and implements, it has tended to help the improvement in the breed of cattle, and it has provided the means by which useful information can be disseminated.

The intellectual and moral benefits have also been immense. The need for signing promissory notes and of keeping accounts has led to a demand for literacy. The criterion for admission into these Societies being a man's character, they have influenced the conduct and behaviour of the members. They have promoted thrift. The fact that the members are responsible for the payment of each other's debts, has acted as a powerful check on expenditure for unproductive purposes. Self-restraint, punctuality, straightforwardness, self-respect, and discipline have been encouraged. In some places, litigation has markedly decreased. In others, funds have been used to start schools, to provide scholarships, to supply drinking water, and to clean roads. The managing bodies have frequently been entrusted with the arbitration of disputes and with other duties which belong to panchayets, and there is some reason to think that the continuity of aim and solidarity of feeling inherent in the movement may lead to a revival of the corporate village life

Intellectual
and moral
benefits.

which has been so much weakened by the disintegrating influence of modern times.¹

Dharmagolas. A proposal has been made that *Dharmagolas* might be registered under the Co-operative Credit Societies Act. Sir Daniel Hamilton suggests that the cultivators or the zemindars might provide the grain capital necessary to set the *dharmagola* agoing. The grain would be lent out at a grain rate of interest, the profit with the original grain being dumped into the gola for the benefit of the village. "The Dharmagola," says Sir Daniel, "might in time be developed into a village grain store in which the villager could deposit his crop and draw advances thereon at a reasonable rate of interest, instead of, as he now does, throwing his entire crop in a lump on the market or into the hands of the friendly Bunia, and getting the low price which must result from the whole of the crop being dumped on the market at one time."

7. STATE BANK

The proposal for the establishment of a State or Central Bank in India has been the subject of considerable discussion in recent years. Germany, France, Japan, Russia, and many other civilised countries have their State Banks, and the estab-

¹ Sir Fred. Lely in his *Note for the Industrial Conference*, 1906, said, "As the old English guilds have been succeeded by the modern Friendly Societies, so from the village commune may arise a brotherhood which shall harmonise the modern sense of individual right with the need of mutual help."

lishment of a Central Bank is now under consideration for the United States. Why then, it is asked, should India be without a central banking institution under the control of the Government? The following advantages, in the opinion of the advocates of the scheme, are likely to accrue from such an institution:¹

I. To the Government:

Advantages.

(i) The existing "Independent Treasury System," by which, whenever the Government balances are swollen, deliberately or not, large sums are taken off the Money Market, is done away with by the removal of the cause of this system, namely, the absence of a large public or semi-public institution with which large balances could be safely and properly deposited, together with the difficulty of employing Civil Servants in a policy of discretionary loans out of the balances.

(ii) The objections to holding large sums at loan for short periods in the London Money Market are avoided by the method of dealing with sterling resources through this Bank.

(iii) A Bank, responsible for the management of the note issue, has greater opportunities than are open to Government for pushing the circulation of notes and for popularising them by an increase in the facilities available for convertibility.

(iv) The responsibility of Government officials for a variety of financial and semi-financial business is greatly reduced by handing over to a Bank all

¹ Vide *Annexe to the Report of the Chamberlain Commission*, p. 79.

questions of balances, note issue, remittance, and loans on the London Market.

(v) The Government has at its command the services of officers of the highest position, trained in financial and banking business, instead of Civil Servants who, however full of adaptability and intelligence, have been selected and trained mainly for other purposes.

(vi) A buffer is placed between the Secretary of State and vexatious criticism on small details of financial business.

II. To the business world :

(i) In addition to the partial release of Government balances through their deposit in a central institution, a considerable amount of funds is made available by the reform of the note issue.

(ii) The present wide fluctuations of the bank rate and its normal high level in the busy season may be somewhat moderated.

(iii) The increase of branches, which the union of Government and banking business should promote, would gradually bring sound banking facilities to many parts of India, where they are now almost entirely wanting, both directly and by supplying a basis, in reliance on which private and co-operative banking could be built up.

(iv) The introduction of re-discount facilities, while probably not of the first importance in the immediate future, might greatly aid the eventual development of Indian banking on the most desirable lines which European experience has so far evolved.

III. To the people.

It is expected that the proposed State Bank will be of much benefit to the people, for it will help the development of Indian Joint-Stock Banks and will finance the Co-operative Credit Societies.

The objectors, on the other hand, point out the following demerits of the proposal:¹ Disadvantages.

(a) There is, first, the difficulty of choosing a place for the head office of the Bank. If one of the Presidency towns be selected, the others will not tolerate the Bank. If Delhi be made the headquarters, it will be out of touch with the Indian financial world.

(b) In a vast country like India it is impossible to manage and control banking business from one centre. The various provinces have different methods of credit and different ways of carrying on their business.

(c) Far from lightening the burdens of the Government, it will increase them. In times of financial crisis, it will create great difficulties, for the Government would find itself saddled with responsibility unaccompanied by control.

(d) It will create disputes between the Government of India and the Secretary of State.

(e) It would mean the ruin of the Exchange Banks, which have so far handled the business and the trade of India well and economically.

¹ These were some of the objections taken by Sir Shapurji Broacha, one of the members of the Chamberlain Commission. Vide *Capital* (Calcutta), March, 1914.

Views of
eminent
economists
and financiers.

The opinions of experts seem to be almost equally divided on the question of the desirability or otherwise of a State Bank. Mr. J. M. Keynes and some other economists are in favour of the proposal, while eminent financiers like Sir Guy Fleetwood Wilson, Sir Felix Schuster, and Lord Inchcape are against it. Sir Guy considers the difficulties and dangers very great, and says, "You would increase friction, and you would render the position of the Finance Minister nearly untenable." Sir Felix Schuster does not think that the State can delegate certain responsibilities and duties to any Bank. Lord Inchcape is very strongly of opinion that "there is nothing to be gained either from the point of view of the Government or from that of the trade of the country." The attitude of the Government of India towards this question, in the words of Sir James Meston, is that it is "for the time being outside practical politics." The Chamberlain Commission say in their Report, "We are not in a position to declare either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early and careful consideration."

8. RAILWAYS

Until the time of Lord Dalhousie, the construction of railways in India was neglected. After the Sepoy Mutiny the strategic importance of railways was fully realised, and railway construction proceeded at a very rapid pace. The following

table gives the length of railway lines open on the 31st March, 1913, together with the capital outlay on them :

CLASS.	Length of Line.	Total Capital Outlay.	Classes, mileage, and capital.
<i>All Gauges.</i>	Miles.	£	
State lines worked by the State -	7,023	84,372,200	
State lines worked by companies -	18,318	194,275,600	
Companies' lines guaranteed under modern contracts - - -	32	201,267	
District Board's lines - - -	155	472,733	
Assisted companies' lines - -	3,807	17,485,533	
Unassisted companies' lines - -	69	122,867	
Lines owned by Native states and worked by companies - -	2,056	10,363,533	
Lines owned by Native States and worked by State railway agency	257	1,042,867	
Lines owned and worked by Native States - -	1,808	4,295,200	
Lines in foreign territory -	74	1,307,867	
Total of all Railways, 1912-13 -	33,599	313,939,667	

Though the primary objects of the construction of railways were strategic and administrative, their economic effect has been immense. Cheap, easy, and quick communication enables the surplus population of congested areas to move to the more thinly populated parts of the country where labour alone is needed to make the soil yield bountiful harvests. There the people can turn their labour to better account and command higher rates of remuneration. The railways have helped to equalise

Object of railways, strategic and administrative.
Economic effects : equalisation of population,
equalisation of prices,

mitigation of
the horrors of
famine,

impetus to
economic
activity.
Social, moral,
and political
effects.

Disadvan-
tages.

State, private,
and assisted
railways.

to a large extent prices in the different parts of the country. Under their influence, the whole of India is fast tending to become one market for the more important articles. The value of railways is most realised in periods of famine. Famines are rarely universal throughout India. Generally, they affect particular tracts, and it often happens when one area is suffering, another has an abundant harvest. Now the railways have made it possible for the deficiency of the former to be made good out of the surplus of the latter. They thus greatly help in mitigating the sufferings of the starving population. Besides, the railways have given a great impetus to the economic and other activities of the people. The influence of railways on the moral and social life of the people has also been considerable. Their political effect is seen in this that they have made possible an efficient system of centralised administration.

On the other hand, by facilitating export, they have caused prices to rise; and by promoting the importation of foreign goods they have hastened the decay of indigenous industries. Besides, the obstruction caused to natural drainage by high-level railroads and the formation of water-pools on both sides of the lines, have most prejudicially affected the health of the people.

Some of the railways were constructed by the State, but most of them were built by private companies under the State guarantee of an interest of 5 per cent. per annum. In certain cases, the Companies received assistance from the

State in the shape of free use of land and other concessions.

Until the year 1896, the railways had to be worked at a loss, and the total deficit amounted to 51·84 crores. But after that year they began to be more profitable, and in 1912-13 the net earnings of all Indian railways produced a return of 6·48 per cent. on the total capital outlay on open lines.

Railway
finance.

As railways now connect the different parts of the country with one another, Indian politicians are of opinion that no more lines should be constructed either by the State with borrowed funds or under the guarantee system. As the capital is mostly raised in Europe, India has to part with a large sum of money every year in the shape of the interest and profit of such undertakings. It is, therefore, urged that the future construction of railways be left to private, and, if possible, local enterprise, and that State funds be applied in a larger measure than has hitherto been the case, to irrigation.

Suggestion of
future
construction
only by private
companies.

A few words may be said here about the advantages and disadvantages of the State ownership of railways. The points in favour of such ownership are :

State vs.
private
ownership of
railways.

(i) Profits accruing from railways help to swell the State income ;

(ii) On State-owned railways the convenience and the safety of passengers are first consideration ;

and (iii) Rates are fixed on a fair basis, and may, whenever necessary, be so adjusted as to help the economic development of the country.

The objections are :

(i) The fear of uneconomical management owing to the want of interest on the part of the railway officials, and

(ii) The apprehension that State interference with industry may be prejudicial to industry itself.

Complaints
against
railways.

Preferential
tariffs causing
harm to local
industries.

Complaints are often heard about the management of Indian railways. It is said that the policy of railway officials is exclusive, that sufficient regard is not paid to the convenience of passengers, and that Indians are excluded from the higher branches of railway service. But a more serious complaint is that in framing their goods tariff, the railway authorities quote differential rates, so as to give an advantage to imported articles over indigenous goods. For instance, glass and match factories are placed at a disadvantage by the offer of specially favourable rates to imported glassware and matches. It may be argued that the carriage of small quantities over short distances is often really more expensive to the Companies than that of large quantities over longer distances. Whatever truth there may be in this argument, it is evident that the existing freight system is hardly conducive to the growth of indigenous industries and the expansion of internal trade. Then, again, it is said that, there being very few competitive lines, the railway authorities often push the principle of 'charging what the traffic will bear' too far. Sir Frederick Lely said a few years ago, "The Traffic Manager wields an irresponsible power over the country commanded by his railways, which should

not be entrusted to any man, and, least of all, to one who, rightly from his own point of view, regards nothing but his masters' dividend." The main consideration with the railway companies is naturally to make the largest profit possible out of the working of their lines. But as most of the railways belong to the State, the public have a right to expect that the economic interests of the country should not be wholly neglected.¹

9. IRRIGATION

We have already seen that in many parts of India the normal annual rainfall is very defective; and in some others, although the total quantity of rainfall is large, it is badly distributed with reference to the seasons or the requirements of the crops. In all these parts, irrigation is necessary for the growth of crops.

Necessity of
irrigation.

Irrigation has been practised in India from very early times.² The remains of the canals constructed

Irrigation
practised from
remote ages.

¹ Sir V. Thackersey gave expression to the popular feeling in the matter when he moved a Resolution on the subject in the Imperial Legislative Council in 1912. In last March, Sir I. Rahimatulla moved a Resolution urging the Government to take over the management of State Railways from the hands of the Companies.

² Lt.-Col. Tyrrell, in his work on *Public Works Reform in India*, says, "It is, I believe, too common an idea in England, that the natives of India are without an engineering history, that there are no works extant of their engineering skill, and that they owe to us all that they possess in that department: such is not the case. India has an engineering history; not written in splendid palaces and lofty structures, yet still marked by works whose usefulness may vie with works of any other nation—works on which her life depends."

by Hindu monarchs as well as by Mahomedan rulers are still to be found in many parts of the country. But the chief works executed by Hindu kings were tanks of which there are thousands,—many silted up, many in ruins, many dry by destruction of the supply channels. The whole of southern India is still covered by a network of old tanks, and millions of acres are still irrigated by them. These tanks vary in size from a few acres to ten square miles of water surface. In some places there is the chain system, where the surplus of one tank flows into the one below. In Upper Burma also, there is a large number of tanks. Well-irrigation has always been very important in Northern India.

Neglect during
early years of
British rule.

During the early years of British rule, the subject of irrigation was much neglected, and to this neglect was due¹ the destruction of many noble works. The repair of old storage works and the construction of canals were strongly urged by Sir Arthur Cotton, but it was not until the middle of the last century that the matter engaged the serious attention of the Government.

Inundation
canals.

The simplest method of supplying water to fields is that of leading water from rivers and streams by means of inundation canals.² They are formed

¹ Lt.-Col. Tyrrell says, "In the Nagpur and Hyderabad country of the Deccan, the ruins of extremely large tanks exist, now in the midst of jungles, formerly the sites of a rich cultivation and a busy population."

² *Vide* Buckley, *Irrigation Works of India*, from which much of the information here recorded has been gathered.

"In the Gujranwala district there are traces of many old canals which have fallen into disuse many years ago" (Buckley).

by making shallow cuts through the river bank, into which the water flows when the level of the river is raised by the floods. These are mainly to be found in the basin of the Indus and its tributaries. It is, at best, a precarious system of irrigation.

The most important system is that of perennial canals. Many of the weirs in Madras were constructed by the Hindu monarch, Krishna Raya, early in the sixteenth century. The earliest in Upper India were the Jumna Canals. The one on the west bank is attributed to Firoz Shah in the fourteenth century; it fell into disrepair and was restored by Akbar and Shah Jehan. The eastern Jumna Canal was originally commenced by Shah Jehan, and restored and improved by the British Government. The earliest original irrigation works undertaken under the British administration were in the deltas of Madras, of which the Cauvery system is the most ancient. It is the largest delta system and is the most profitable of all the works in India. There are seven similar delta systems in Madras, and one in the delta of the Mahanady in Orissa. The Bari Doab Canal was the first of the modern works in the Punjab, commenced in 1850. This system consists of 369 miles of main and branch canals and nearly 1200 miles of distributaries. The Sirhind Canal, which emanates from the Sutlej, was commenced in 1869, and first brought into operation in 1882. The Chenab Canal is the largest of the Indian systems, consisting of 400 miles of main canals and 1200 miles of distributaries. The Jhelum Canal, which commands a

Perennial
canals.

Remains of
old works.

New works.

Cauvery Delta
system.

Bari Doab
Canal.

Sirhind Canal.

Chenab Canal.

Jhelum Canal.

Triple Canal
Project.

million and a half acres, was completed in 1901. The Upper Chenab Canal and the Lower Bari Doab Canal were opened in 1913. The Triple Canal Project, which is now approaching completion, will, when completed, be regarded as one of the most brilliant feats of canal engineering in India. Under this scheme, the excess waters of the Jhelum are taken off and carried to the Chenab and discharged into that river, and what remains after is carried to the Rair and poured over the Lower Bari Doab. This system will irrigate nearly two million acres.

Ganges and
Lower Ganges
Canals.

In the United Provinces, the Ganges and the Lower Ganges Canals are the two principal perennial systems, consisting respectively of 440 miles of main and branch canals and 2700 miles of distributaries, and 558 miles of canals and 2400 miles of distributaries.

Sone Canal.

In Behar, the Sone system consists of 370 miles of main and branch canals, and 1200 miles of distributaries. The Orissa Canals are also important. In Bengal, the only irrigation system is the Midnapur Canal.

Midnapur
and Orissa
Canals.

Storage
works.

The demand for storage works is the greatest in Bombay and Madras, where most of the rivers have short courses, and the rain, which frequently falls in heavy but brief storms, passes away rapidly. The reservoirs and tanks in the Bombay Presidency are constructed in hilly ground. The most important of these are Lake Fife and Lake Whiting, near Poona. In Bombay, the irrigation works have been unremunerative; but there is no province of India more liable to famine, and the extension of protec-

tive irrigation is urgently needed there. The Periyar system in the Madura district of Madras is the most interesting reservoir scheme in India.

There are only three canal systems in India which have been constructed for the sole purpose of navigation. These are the Circular and Eastern Canals in Bengal, the Orissa Coast Canal (including the tidal canal), and the Buckingham Canal in Madras. Just at the present moment the Government have in hand the project of converting Tolly's Nullah into a canal. This, when accomplished, will greatly facilitate communication between Calcutta and East Bengal.

Navigation
canals.

For official purposes, the irrigation works are primarily divided into two main classes—Major Works and Minor Works. Each of these main heads is again subdivided into two subsidiary ones—(i) Productive, and (ii) Protective. Those which are financially remunerative fall under the first sub-head; while those works are called protective, the revenue derived from which does not cover the interest on the capital expended. These latter are works which it is considered desirable to construct in order to help in producing food-grains as a protection against famine, and they are financed out of the Famine Relief and Insurance Grant of a crore and a half set apart every year.¹ The productive works are generally constructed with

Major and
Minor Works.

Productive
and Protective
Works.

¹ As Mr. Buckley says, "The financial test is not the only—or, indeed, the ruling—one which should be applied in order to determine whether a particular irrigation work should be constructed or not."

borrowed funds. The average cost per mile varies from Rs. 3000 to Rs. 50,000, and the percentage of net receipts on capital outlay is over 7 per year.

Canal
Colonies.

Irrigation in the Punjab has turned arid deserts into fertile fields.¹ Before the construction of the

¹ The following Irrigation Projects were under construction at the end of the year 1914 :

Projects arranged by Provinces. 1.	Length in Miles.	
	Main canals. 2.	Distribu- taries. 3.
<i>Burma—</i>	Miles.	Miles.
1 Y-eu canal - - - -	53	200
2 Twanté canal - - - -	20	—
2(a) Twanté canal dredgers - -	—	—
<i>Punjab—</i>		
3 Lower Jhelum canal - -	238	1,203
4 Upper Jhelum canal - -	128	562
5 Upper Chenab canal - -	210	1,092
6 Lower Bari Doab canal - -	180	1,060
<i>North-West Frontier—</i>		
7 Upper Swat River canal - -	143	339
<i>Bombay—</i>		
8 Mahiwal canal - - - -	206	87
<i>Madras—</i>		
9 Nagavalli River Project - -	23	57(b)
10 Divi Island Project - -	50	116
11 Toludur Project - - - -	4	32
<i>United Provinces—</i>		
12 Gorai Canal - - - -	9	41
<i>Central Provinces—</i>		
13 Asola Mendha Tank - -	—	75(b)
14 Waingunga Canal Project - -	28	152(b)
15 Mahanadi Canal Project - -	140(b)	476(b)
Total - - - -	1,432	5,492

Chenab Canal, the tract which it commands was almost entirely waste, with an extremely small population. Two million acres of wilderness have now been turned into sheets of luxuriant crops, and a new population of a million people have found homes in this area. The Jhelum Canal Colony occupies some 900 square miles of State land. Colonisation began here in 1902, and the present population is nearly 200,000. The other Colonies are the Chumien on the Bari Doab, and the old colonies of Sohag-para and Sidhuai. Colonisation will also soon commence in the Punjab Triple Canal area. Sir G. F. Wilson, referring to these Colonies, said that they were calculated to be "the richest granaries of Asia, and afford scope for the rise of large and important industries among the sturdy and practical races of India."

Irrigation yields a net revenue of about $1\frac{1}{2}$ crores every year. The revenue is derived from the supply of water for the crops, besides certain subsidiary receipts, such as tolls for navigation, rents of fisheries, etc. The income from navigation is considerable in Bengal and Madras, but is insignificant in the other provinces. The amount of revenue charged for irrigation does not depend on the volume of water supplied, but on the nature of the crop and the area irrigated. In the provinces of Upper India, and in parts of Bombay, the irrigation revenue is not assessed with the land revenue, but is distinct from it. It is assessed by irrigation officials, and consists of (i) occupier's rate, (ii) owner's rate, and (iii) enhancement of land revenue

Irrigation
Revenue.

due to canals. In Madras, the system of consolidated rates—including both the land and the irrigation revenue—is followed. The average incidence of the irrigation rate per acre irrigated is Rs. 3·45.

Benefits of
Irrigation.

The advantages of irrigation are manifold. It is a boon to the cultivators, for not only is the out-turn of their fields ensured in years of drought, but the amount of produce is very largely increased in ordinary years at a comparatively small cost. The landowners derive benefit from the works by the increased rentals they obtain. The advantages to the country as a whole are that they protect large areas from the effects of famine, and increase the total food-supply of the people. Lastly, they are beneficial to the Government in that, besides bringing increased revenue into its coffers, they help to lessen the miseries of the people, and thus remove the chief causes of popular discontent.

Extent of
existing
works.

The survey made by the Irrigation Commission of 1902 showed that $19\frac{1}{2}$ per cent. of the total cultivated area was ordinarily irrigated; and of the area irrigated, 42 per cent. was watered from State works, and the rest from private works, of which more than half was from wells. On March 31st, 1913, the total area irrigated by State works was $16\frac{1}{2}$ million acres, and the total capital outlay was about 65 crores.

Need for
more
Irrigation.

Although great progress has been made in irrigation, much yet remains to be done. As the Irrigation Commission of 1902 pointed out, only a small percentage of the total supply of water has

been utilised for the benefit of man. In order to prevent the water of rivers and streams from flowing uselessly into the sea, many more canals and storage works will be needed. Agriculturists, too, should be encouraged with loans and grants to construct wells and reservoirs. It is also to be hoped that greater attention will be given to the improvement of internal navigation.¹

10. THE STATE AND INDUSTRY

Under the rule of the East India Company, the indigenous industries of the country fared very badly. Since the assumption of the administration by the Crown, the Government has always maintained a policy of non-interference or *laissez faire* in matters of industry and trade. Its connection with them is, in fact, of an indirect kind. The growth of industry is made possible only because of the security which the country enjoys under the Government. But active steps are rarely, if ever, taken by the State to promote industrial development. It must be admitted, however, that just at the present moment the Government is evincing some interest in these matters, and the movement for promoting home industries often receives promises of support at its hands. Circulars have been issued

Laissez faire
policy of
government.

In recent years,
some interest
evinced in
industrial
matters.

¹ Lieut.-General Sir Arthur Cotton said many years ago, "If 1000 cubic yards of water can be made use of at a cost of 6d., and if its value, so applied, is 10s., there is no gold mine in the world that can be compared to an irrigation work" (*Lecture on Irrigation Works in India*, p. 1).

to the effect that stores required by the Government should, as far as practicable, be purchased in India, and a preference should be given to Indian over foreign manufactures, provided that the quality is sufficiently good, and the price not unfavourable; but, unfortunately, these orders are not always put into practice. From time to time monographs are issued dealing with the position of some leading industry. The Department of Commercial Intelligence also publishes much valuable information, and thus helps to diffuse knowledge regarding existing manufactures and future possibilities. The local governments often institute special enquiries to ascertain the prevailing industrial conditions. Industrial conferences and exhibitions are sometimes held under the auspices of the Government. Endeavours have been made during the last few years in most of the provinces to improve the domestic cotton industry by introducing better types of handlooms and superior methods of weaving. In Madras, successful experiments have been made in the process of chrome-tanning. The Government have also given some encouragement to technical and commercial education by offering scholarships to deserving young men, and by helping some of the private industrial associations.

Practical
support
needed.

These measures sum up the activity of the State in the matter of the encouragement of industry. But, taken together, they do not amount to much. The President of the Indian Industrial Conference of 1910, lamenting the apathy of the Government, said, "A benevolent inactivity is not the attitude

we have a right to expect from Government, and indefinite promises of assistance are not of any practical value. Nothing short of definite and fully authorised assurances of support confirmed, if necessary, by legislative enactment should satisfy us."

In this respect the Indian Government compares very unfavourably with the other civilised Governments. In Germany, the United States, Japan, Canada, and Australia, the State does everything in its power to promote national industry. The economic development of Japan has been systematically fostered by the State, which has spent money lavishly in encouraging industrial enterprise. Besides subsidising struggling industries, the Government set up model factories and pioneered many industries which have now become the source of immense wealth to the country. In Hungary, where the conditions are in many respects similar to those of India, the State renders immense help to industry. In addition to the maintenance of a protective tariff and the indirect support given to indigenous products by the guarantee that all requirements of the authorities shall be supplied by home industry, the State has made various legislative provisions for the encouragement of industry. The main provisions of Act 3 of 1907 relate to (1) exemption from taxation and dues and from road rates; (2) reduced rates for railway transport and concessions in respect of customs and excise duties, and of expropriation; (3) the delivery of industrial salt at a price below that usually charged; (4) the encouragement of the building of workmen's

Steps taken by
other civilised
governments.

dwelling; (5) the development of industry by a guarantee that all public contracts shall be placed with Hungarian firms; and (6) encouragement of industry by direct grants of money (subsidies).¹ As is quite natural to expect, these measures have resulted in a great expansion of production and trade.

The true
functions of
the State.

If the narrow conception of the functions of the State be discarded, and an all-round development of the community be taken as the object of the State, the *laissez faire* policy of the Indian Government cannot be defended. Regarded from this standpoint, the Government has surely failed in its duty. But whatever may have been its shortcomings in the past, it is perhaps not too much to expect that the Government will in future recognise its responsibilities and turn its earnest attention to this matter.² One important aspect of the

¹ *Vide* Alexandre de Hottan's article in the *Economic Journal*, March, 1911, p. 37.

² The leaders of Indian opinion in every Province are now insisting on an active encouragement being given to industrial development by the Government. The Industrial Conference of 1914 urged that "the State should aid the starting and pioneering of new industries." The following resolutions, proposed by the non-official members of the Madras Legislative Council, are also interesting in this connection :

1. This Council recommends that in the incipient stage of the industries of the Presidency, the actual development of our industries, in the case of those which have to be worked on European methods to enable them successfully to compete with foreign articles, should not be left entirely to private enterprise, but that the Government should embark on industrial undertakings of all kinds on a commercial scale to serve as object lessons and incentives to private enterprise.

2. This Council recommends that a beginning may be made

question was pointed out by a high official of the Government a few years ago. He wrote, "With the spread of education, to which a stimulus is now being applied, and the desire which exists of improving the condition of the people, corresponding assistance seems called for in the sphere of economic development. Unless this is given, a condition of affairs will be created wherein the better educated will not have suitable material to which to devote their minds, and there will result the anomalous spectacle of a highly educated people in an undeveloped country."¹

11. PROTECTION OR FREE TRADE?

The abstract question whether Free Trade or Protection should be adopted by a State in its commercial policy would form more fittingly the subject of discussion in a treatise on General Economics

by starting on a commercial scale, employing European experts if necessary, industries connected with oil seeds, namely, crushing seeds, refining oils and manufacture of soap, stearine, glycerine, candles, tallow, lard and other products.

3. This Council recommends that His Excellency the Governor in Council may be pleased to direct that the bureau of industrial information which has been sanctioned in connection with the Department of Industries be ordered to be organised at once on the lines of the Boards of Trade in other countries, to obtain samples of finished articles manufactured from all kinds of raw materials exported from India and to issue bulletins explaining the process of their manufacture and the markets for such manufactures.

¹ Report on the Progress of Agriculture of the Agricultural Adviser to the Government of India (1911-12), pp. 5 and 6.

Merits of Free
Trade

than in a work on Indian Economics. But the arguments of the two schools may be briefly summarised here so that they may be helpful to the solution of our concrete problem. The advocates of Free Trade point out the following advantages of the system: (1) International trade is like internal trade; the freer it is, the greater are the advantages to both parties; by allowing trade to be absolutely unfettered, every one is able to buy in the cheapest and to sell in the dearest market, and the gains of all are at a maximum; (2) every nation is in a position to develop its natural advantages to the utmost, and then the world's total wealth is enhanced, because of the distribution of productive energies in the most economical fashion; and (3) Free Trade means goodwill among nations and among sections of a community. To these arguments the opponents of the system would reply that the analogy between internal trade and international trade is not quite correct; that when an industry in one country is threatened with destruction by a similar one in another, it is no solace to the first that the world's wealth is being augmented at the cost of its own; and that, far from promoting goodwill, Free Trade may produce the result of placing one country in economic subjection to another.

not recognised
by Protec-
tionists.

Merits of
Protection.

The reasons that have been usually advanced in favour of Protection are the following: (1) It is necessary to restrict imports in order to secure a surplus of exports so that there may be a balance of trade favourable to the country; (2) protection is beneficial to agriculture as well as to industry,

because the resulting increase of wealth and population is likely to afford a larger market for the food and raw material of the neighbourhood; (3) protection has a tendency to increase wages and to raise the standard of living of the labourer; (4) it furthers an all-round economic development and secures national industrial independence; and (5) under the fostering care of the State, infant industries are protected against unfair competition during the period of their growth, and thus saved from extinction. The usual objections to Protection are: (1) In principle, it is destructive of all foreign trade and the moral and intellectual benefits resulting therefrom; (2) it prevents a country from producing as much in the aggregate as it might produce in the absence of protection; (3) it does not really protect, because it destroys as many industries as it artificially fosters; (4) it diverts capital from its natural channels; (5) it tends to demoralise the industrial classes and to render industry unproductive; (6) it benefits the producer at the expense of the consumer, and is thus a robbery of the many for the benefit of the few; (7) it involves interference of the State with trade and industry, and it often produces political corruption; and (8) it causes national animosities.

Defects.

Without entering upon a detailed criticism of the arguments and reasonings of the two rival parties, it may be remarked here that in their enthusiasm for their respective favourite doctrines, the advocates of each go a little too far in their particular direction. Although some of the positions occupied by

Element of
truth in each
theory.

the extremists on each side is untenable, there is an element of truth in each of the two opposed doctrines. Cosmopolitanism is an excellent ideal, but a far-off one. So long as the different nations exist, each one of them should be allowed to develop itself in the best way it can. Free Trade means rivalry among the industries of different countries, and when such industries are on a footing of equality, it helps to make each of them stronger; but when the struggle is between a strong industry and a weak one, the weak is sure to be pushed out of the field unless it is backed up by the State. Even such an ardent supporter of Free Trade as Mr. J. S. Mill admitted that in the "infancy stage of an industry protection is useful." The conclusion, then, is that Free Trade should be the general policy of States; but, under certain conditions, Protection is not only defensible but is absolutely necessary.

Mill's con-
cession in
favour of
Free Trade.

List's views.

So much as regards the abstract side of the question. Now let us consider the matter from the Indian standpoint. At the present moment India is, in the main, an agricultural country. "A nation," says List, "which only carries on agriculture is like an individual who in his material production lacks one arm."¹ Producing only raw materials, she

¹ List, *National System of Political Economy*. List clearly points out the defects of an exclusive pursuit of agriculture in these words: "In a country devoted to mere raw agriculture, dullness of mind, awkwardness of body, obstinate adherence to old notions, customs, methods, and processes, want of culture, of prosperity, and of liberty prevail. The spirit of striving for a steady increase in mental and bodily acquirements, of emulation, and

imports manufactured goods, and is, in the words of the great economist, "like an individual with one arm, which is supported by a foreign arm."¹ The development of manufactures is thus absolutely essential to the well-being of India.

But the Indian industries which have been recently started, and those which are to be started in future, will have no chance of success if they have to withstand the competition of the well-developed and strong foreign industries. The greatest difficulty which an infant industry in India is likely to face was thus described by the President of the Indian Industrial Conference of 1910. "I am sure," he said, "that any industry started in this country, calculated to decrease foreign imports, will lead to foreign manufacturers putting down goods at our doors at a price considerably below that at which they can be produced in this country, and we shall not be able to find a market unless we have protection in some form. Such industries as we may develop in our country will not, for years to come, seek a foreign market, and our home market, under present conditions, might be practically closed to us by foreign manufacturers who, with unlimited resources at their command, might possibly consider it policy to dump their goods in the country at a price below our manufacturing cost, with the object of killing local competition and then again raising the prices to a profitable figure."

Nascent industries have no chance of success against foreign competition.

of liberty, characterise, on the contrary, a state devoted to manufacture and commerce."

¹ List, *National System of Political Economy*.

Practice of
advanced
nations.

All the industrially-advanced countries of the world have afforded protection to their industries during the period of their infancy. The protective policy of Cromwell and Colbert laid the foundation of the industrial greatness of England and France respectively. Even at the present day, Germany, the United States, the British Colonies, Japan,¹—in fact almost all civilised countries,—maintain the policy of Protection. England is almost alone in this matter; but her Free Trade policy is consonant with the economic doctrine—followed even by the Protectionists—that raw materials should not be taxed. The conditions of England, however, are quite different from those of India; and a protective tariff in India is likely not only to assist her industries, but to produce revenue urgently needed for education, sanitation, and social reform.

Indian opinion
"overwhelm-
ingly
protectionist."

Indian opinion is, as Professor Lees-Smith puts it, "overwhelmingly protectionist."² As early as in 1879, Mr. (afterwards Justice) K. T. Telang, made a powerful appeal for the protection of Indian industries. The late Mr. Justice Ranade always used in his speeches and writings to dwell on the necessity of the adoption of a policy of protection towards the nascent industries. All the prominent

¹ At a recent meeting of the Japan Society in London, Mr. Aoki said that protection had played a very important part in the phenomenal industrial development of Japan. He added that the country had no strikes or trade disputes; there were no trade unions, wages had risen more than prices, and the labourer's position had been greatly improved.

² H. B. Lees-Smith, *India and the Tariff Problem*.

Indian statesmen of the present day hold Protectionist views, and their views are shared by many Englishmen conversant with the economic conditions of India. Lord Minto said a few years ago that the future of India depended very largely upon what could be done for the development of Indian industries. From a manufacturing point of view India was a young country. Canada was also a young country, and it could not have become the great country it was now without a high tariff wall against the products of the United States. The Canadians had created their manufactures, and had become strong by the artificial aid given to their own industries. Of course, India was not in the same position as Canada; it did not touch up with the territory of any great manufacturing Power. But it did touch up against competition, and if they wanted to create great industries in India, he did not see how they could do so without something like Tariff Reform.¹

Though Indian statesmen advocate a system of Protection, they are not blind Protectionists. They are fully alive to the fact that Protection will lay a burden on the consuming public, and thus entail on them great sacrifices. They consider it expedient to make those sacrifices, because they think that the loss is sure to be more than counter-balanced by the gain resulting from an increase of productive power. They do not, however, desire that the policy of protection should be extended to each

Indian
statesmen
not blind
protectionists.

¹Lord Minto's speech at the Central Asian Society, May 17, 1911, reported in the *Times*.

and every industry. They would advocate protection only for those industries which may have a reasonable chance of success. The ultimate ideal of the so-called Indian Protectionists is Free Trade. They hope that a time will come when protection, having served its purpose, will no longer be needed.¹

12. INDIA AND IMPERIAL PREFERENCE

Sir R. Lethbridge's view :

We now come to an important practical question allied to, and yet different from, the one we have just treated. In discussions about Imperial preference, India is generally left out of account ; and those who allude to India look upon the matter not from the Indian but the English standpoint. Sir Roper Lethbridge says, "In any reasonable scheme for the Commercial Federation of the British Empire, India must occupy the chief place after the Mother Country. At this moment, among the Constituent States of the Empire, she is at once the largest producer of food and raw material, and one of the largest consumers of manufactured products. And potentially, with her 300,000,000 of thrifty, industrious, and progressive workers and consumers, she is a commercial unit of greater importance in the world, whether for exports or for imports, than almost any other."²

¹ Even List admitted that when nations have attained to their full powers, Protection is apt to check progress and lead to decadence.

² *Vide* Sir Roper Lethbridge, *India and Imperial Preference*.

Sir Roper places a very high ideal before the eyes of Indian statesmen. He holds out the hope that the future commercial treaty between India and the rest of the Empire will involve the recognition of India as a sovereign State. But he would not allow India to afford protection to her own industries against British goods. Wherein, then, will the sovereignty consist?

Recognition of India as a sovereign State, but no protection against British goods.

Sir Roper's general conclusions from his own arguments are that (1) the moment Imperial preference is established vast advantages, direct and indirect, will at once accrue to India; (2) every branch of industry in every province of India will at once be revived and stimulated, and the Indian peoples insured against famine; (3) the stability of Indian finance, now absolutely at the mercy of foreign Governments, will be assured on the cheapest terms by Imperial preference; (4) reasonable and adequate protection will be secured for the nascent industries of India; and (5) in every way, both Indian sentiments and Indian interests will receive from Imperial preference that consideration which is their due, and which can only be secured on these lines.¹

His conclusions.

These undoubtedly are great advantages, and Imperial preference would be worth having if it could secure even a small part of any of them. But to the Indian statesman the solution of the problem does not seem to be so very satisfactory. Sir Roper appears to be very friendly to India, but when we examine his proposals we find that it is the interests

Articles which would receive preference under Sir R. Lethbridge's scheme.

¹ The same sort of argument is also advanced by other Tariff Reformers (Vide *Speaker's Handbook*, Tariff Reform League).

of England and not those of India which he has at heart.¹ The articles which will receive protection under his scheme are tea, tobacco, coffee, cocoa, and indigo. As for tea, it is almost entirely a European industry, and any benefit which may accrue to it will not be much appreciated by the Indian people. Tobacco is a promising industry, and, if protected, it may thrive better; but it is very doubtful if indigo can be resuscitated by any artificial means. Coffee and cocoa are very minor industries, and they may be left out of account. Taken together, these five industries represent only a very small proportion of the exports of India. We must look to other articles, therefore, to make the scheme really useful to India. But the official programme of the Tariff Reform party in England does not offer any clearer advantages to India. "Preference would mean," says the *Speaker's Handbook*, Tariff Reform League, "to India that the United Kingdom and the Colonies would give freer entry to Indian tea, coffee, sugar, wheat, and all India's staple products, and it would mean to us that the Indian import duty on a large number of British manufactures would either be abolished or reduced." The balance of advantage under such a scheme will certainly not lie on the side of India.

¹ Much fuss has been made by Sir Roper Lethbridge and his supporters over a Resolution proposed in 1913 by a member of the Imperial Legislative Council. The other members who took part in the debate on the occasion spoke in favour of Protection and not Inter-Imperial Free Trade, and the proposal of Imperial Preference was strongly and almost unanimously condemned by the Indian press.

Professor Lees-Smith seems to judge the situation correctly when he says: "As regards the ten chief exports from India to the United Kingdom, representing 90 per cent. of the total, no preference is possible unless we are willing to raise the price of raw materials essential to our industries or of foodstuffs. From the nature of our conditions, therefore, we have nothing substantial to offer."¹

The ten articles he mentions are jute, tea, wheat, hides, oil seeds, raw wool, jute manufactures, raw cotton, rice, and lac. As the eminent Professor points out, no preference is possible in jute and lac, for India possesses a practical monopoly of these articles, and there are no competitors to defend her against. In the matter of jute manufactures, the only rival is Dundee. As for tea, India does not want any protection. The remaining articles are either articles of food, *e.g.* rice and wheat, or raw materials of industries, such as hides, oil seeds, raw wool, and raw cotton. Preference can be given to these industries only by taxing the importation into the United Kingdom of the same articles from other countries, and thus raising the prices. But it does not seem at all probable that any substantial rise in the prices of those articles will be permitted in the United Kingdom.

It is clear, then, that India is not likely to gain much by a preference from the United Kingdom. Her trade with the colonies is very small, and no system of preference from them will be of any real use to her. Neither has the Empire anything to

The most important articles of export to United Kingdom,

not likely to receive preference.

Neither United Kingdom nor India has anything to gain by the scheme.

¹ *Vide* H. B. Lees-Smith, *India and the Tariff Problem*.

gain by the proposed system, as India has nothing to offer to the Empire.

Danger of
reprisals.

On the other hand, India may lose much by the adoption of a system of Imperial Preference. As Lord Inchcape pointed out at the Colonial Conference of 1907, "in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, is so serious, and their results would be so disastrous, that we should not be justified in embarking on any new policy of the kind unless assured of benefits greater and more certain than any which have so far presented themselves to our minds."

Sir Roper Lethbridge is perfectly right in holding that "in India Protection for nascent Industries is specially needed by local circumstances." But India wants protection against Great Britain,¹ for

¹ Lord Crewe showed a correct understanding of Indian sentiment in this respect when he said a year ago, "Mr. Bonar Law's Finance Members of the Government of India will have to meet the Viceroy's Legislative Council in debate on the Indian Budget. It is not difficult to foretell what will be said by the very able Indian publicists who adorn that body. They also will be ready and eager on one condition to advance along the road indicated by Mr. Bonar Law towards inter-Imperial free trade, but they will stipulate—and one cannot envy the official who has to answer them—that they should be allowed to advance by the same pleasant path as the self-governing Dominions. They will ask to be allowed to begin a prosperous journey from the same healthy plateau of domestic Protection and to proceed by the same stages of concession for concession from that delectable altitude to the Promised Land of Mr. Bonar Law. It is not to be supposed that they will allow themselves to be hurried blindfold to the goal at which the prize will be distributed to their inevitable disadvantage."

the principal competitor with regard to many of the rising industries of India is Great Britain herself. It does not, however, seem probable that Great Britain will tax herself to benefit India. The real solution of the problem from the Indian standpoint thus lies in giving to India fiscal freedom such as is enjoyed by the self-governing colonies, so that she may arrange her tariff in the way she finds it best suited to her own requirements.

Fiscal freedom
needed for
India.

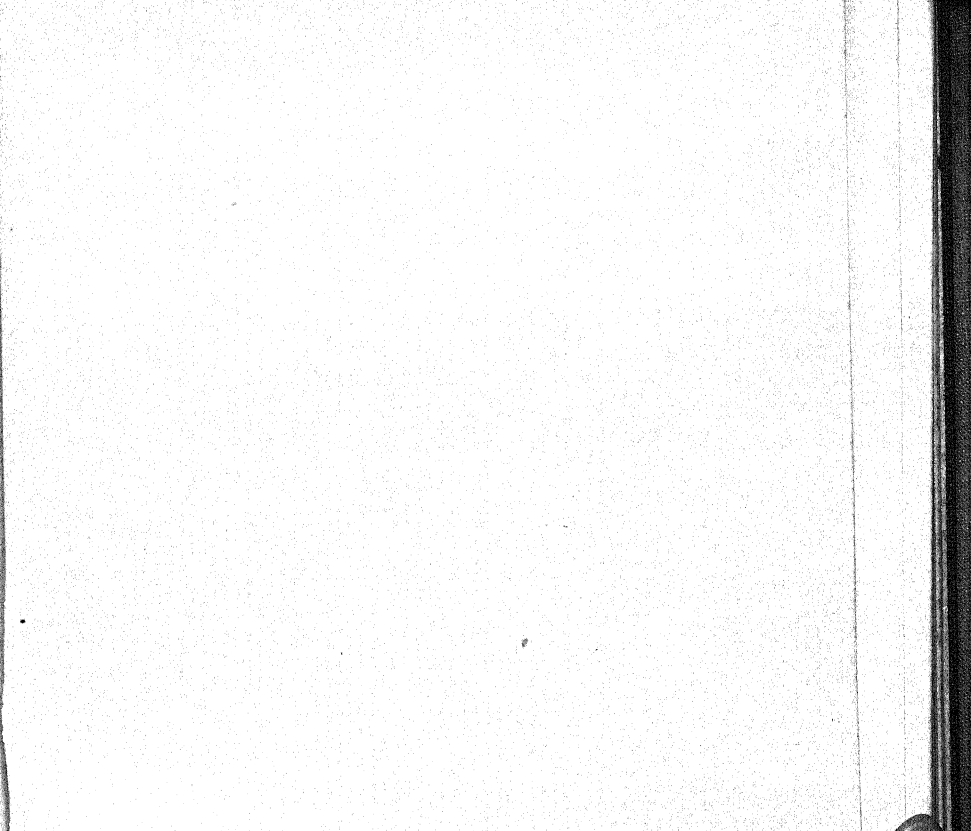
APPENDIX A

INDIAN CURRENCY

Pie	= $\frac{1}{12}$ penny.
Pice (3 pies)	= 1 farthing.
Anna (12 pies)	= 1 penny.
Rupee (16 annas)	= 1s. 4d.
	= 0·324 dollar.
	= 0·65 yen.

A lakh (lac) is 100,000 Rupees, and a crore is 100 lakhs. .

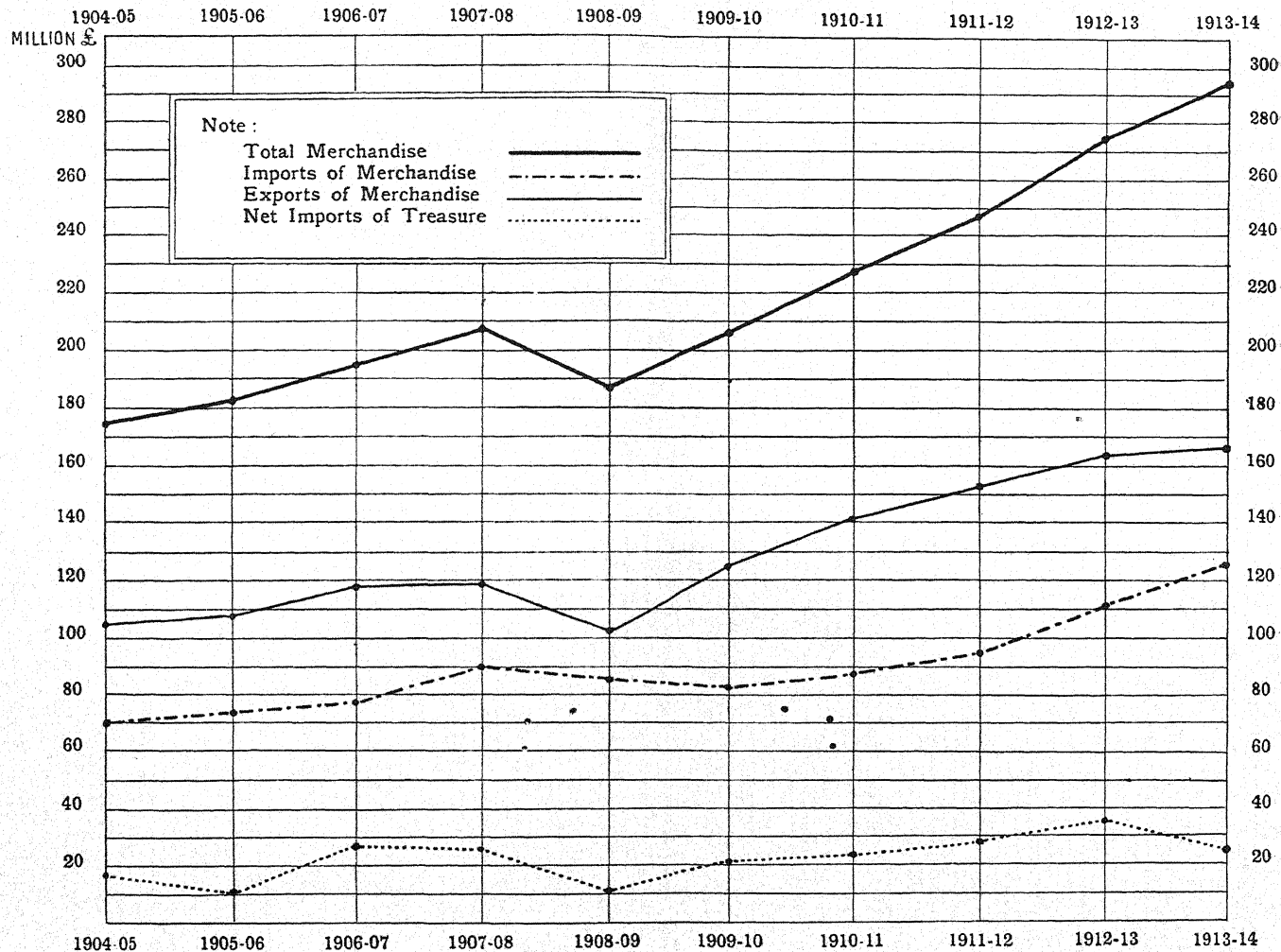
To convert millions of pounds sterling into crores of rupees, multiply by 3 and divide by 2 ; and *vice versa*.



APPENDIX B

FOREIGN SEA-BORNE TRADE OF INDIA.

10 years
1904-05 TO 1913-14.

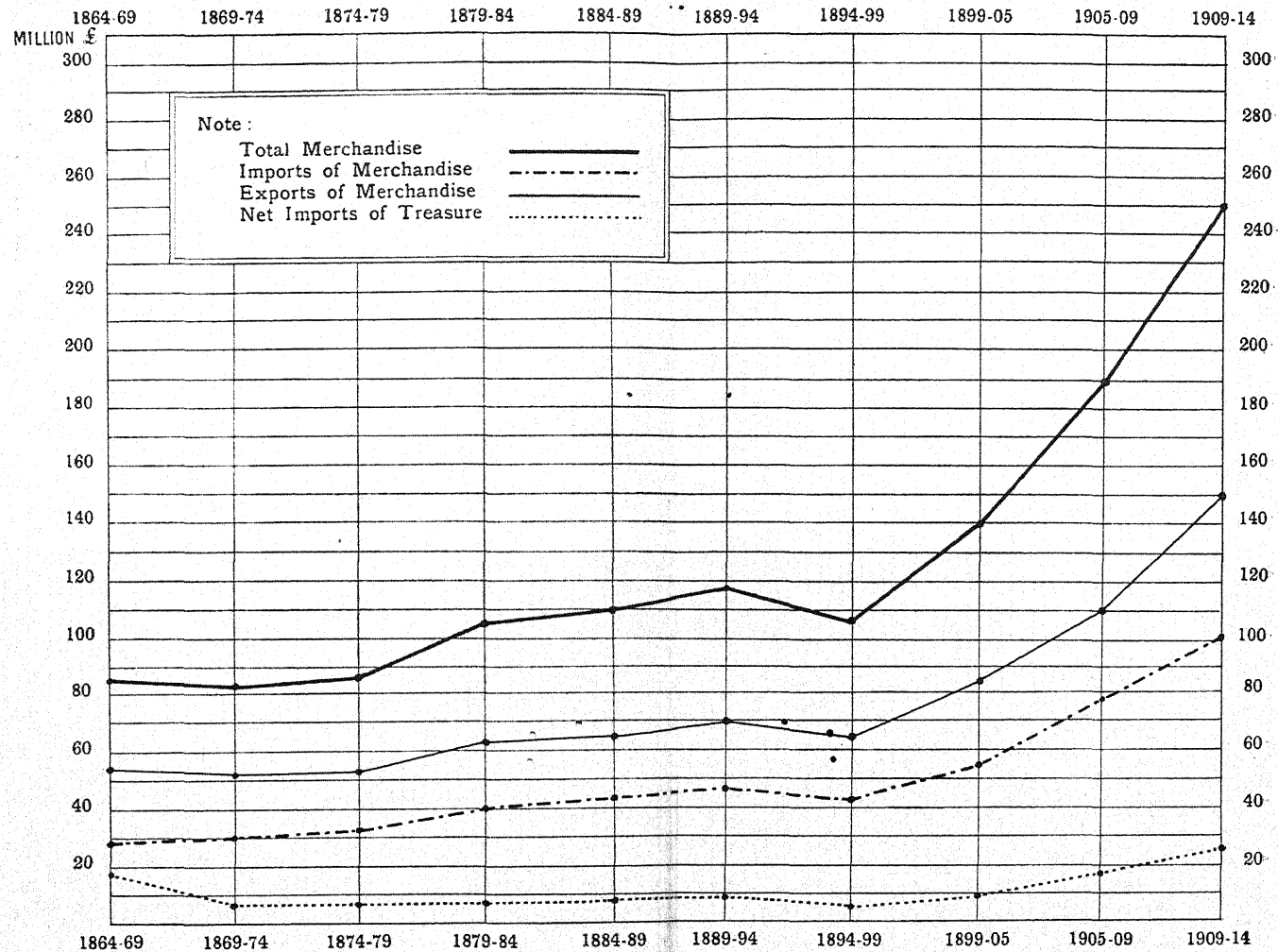


APPENDIX C

FOREIGN SEA-BORNE TRADE OF INDIA.

50 years

1864-65 TO 1913-14.



I.E. x2

From the *Review of the Trade of India*, 1913-14.

APPENDIX D

DENSITY, WATER-SUPPLY, AND CROPS¹

PROVINCE, STATE OR AGENCY.	Mean density per square mile of total area.	PERCENTAGE OF TOTAL AREA.		PERCENTAGE OF CULTIVABLE AREA.		Percentage of gross cultivated area which is irrigated.	Normal rainfall in inches.
		Culti-vable.	Net cul-tivated.	Net cul-tivated.	Double cropped.		
1	2	3	4	5	6	7	8
INDIA.	175	64	38	59	8	17	—
			(a) By Provinces.				
Ajmer-Merwara - -	185	—	—	—	—	—	19
Assam - - -	115	76	18	24	2	1	116
Baluchistan - -	6	—	—	—	—	—	8
Bengal - - -	551	70	50	71	17	4	70
Bihar and Orissa -	344	73	52	71	13	12	53
Bombay - - -	145	63	38	61	2	14	46
Burma - - -	53	42	13	32	1	7	95
Central Provinces and Berar - - -	122	65	39	60	4	3	48
Coorg - - -	111	30	14	45	4	3	127
Madras - - -	291	58	38	65	9	30	43
North-West Frontier Province - - -	164	55	31	56	8	23	21
Punjab - - -	177	57	33	58	10	32	31
United Provinces -	427	72	53	74	15	28	42
Baroda State - -	248	83	73	87	4	5	—
Central India Agency -	121	47	25	53	3	5	32
Cochin State - -	675	57	56	97	17	4	103
Hyderabad State -	162	60	54	89	—	6	30
Kashmir State - -	37	5	4	84	17	24	24
Mysore State - -	197	45	33	72	3	15	38
Rajputana Agency -	82	—	—	—	—	—	22
Travancore State -	452	61	45	74	7	18	85

¹ From the *Census of India*, 1911.

APPENDIX E

FLUCTUATIONS IN PRICES BETWEEN 1861 AND 1897¹

1861-65. A general rise of prices took place about 1860. With the suppression of the Mutiny and the transfer of the administration to the Crown, there commenced a new era of commercial and industrial activity. The resources of the country were developed by the construction of roads and railways, the improvement of harbours, and the extension of irrigation. The cotton famine caused by the American War of Secession (1861-65) gave a great impetus to the cultivation of cotton in India, which, while the war lasted, brought large profits to the cultivator and the merchant. The influx of the precious metals which had begun about the time of the Mutiny was thus further stimulated, and from about the second year of the war a great rise of prices took place throughout the cotton-growing districts of Western and Central India, as also in a smaller degree in other parts of the country. Prices were also raised by the famine of 1861 in the Upper Doab of the province of Agra and the neighbouring districts of the Punjab and Rajputana, and by the scarcity in Cutch.

1866-70. On the collapse of the inflation caused by the American War, prices would have fallen but for the great famine of 1866 in Orissa, which extended into Bengal proper, Bihar, Madras, and the eastern part of the Central Provinces. Another notable famine—that of 1869—affected Western Rajputana and parts of Northern India, and the extension of scarcity, towards the west and south, produced a rise of prices in Bombay, the Central Provinces, and Hyderabad.

¹ From *Prices and Wages in India*, 1909 and 1913.

During 1871-75 prices were not seriously disturbed 1871-75.
by any calamity except the scarcity in Bihar of 1874, and although large purchases of grain were then made by the Government, and scarcity prevailed in the adjoining districts of the United Provinces, the disturbance of prices was not widely felt. The export trade in rice expanded greatly in 1872-73, and was on a large scale throughout the decade 1871-80. It showed greater contraction in 1874, the year of the Bihar famine, than in the Deccan famine three years later.

In this quinquennium occurred the great famine of 1876-80.
1877-78, which affected an enormous tract in Western and Southern India, and extended with diminished intensity into the north, causing a general rise of prices of food-grains all over India. The export trade in wheat, which had begun in a small way after the opening of the Suez Canal in 1870, received a check in the years 1878-80.

Speaking generally, all crops except rice were good or 1881-85.
abundant during these years, though there was scarcity in a portion of the Punjab in 1884, and distress in parts of Bengal and Madras in 1885. The rice crop was bad between 1883 and 1885 owing to drought and floods, but wheat was plentiful, and the average price for all grains was low.

It is difficult to find adequate reasons for the great 1886-90.
rise in prices which took place during these five years, for the 1889 famine in Ganjam (accompanied by distress in Orissa and scarcity in Bihar) was only of local importance, and prices had already reached their highest point in 1888. The export trade in food-grains was not larger than in the preceding quinquennium.

The high prices ruling during 1886-90 were still 1891-95.
further raised in 1891-92 by prolonged drought, causing scarcity and distress in Madras, Bombay, the Deccan, Bihar, and Upper Burma. A strong Indian demand for rice was coupled with large exports, and at the same time there was an unprecedented exportation of wheat owing to the failure of crops in Europe, so that Indian prices rose almost to famine levels. With better seasons

prices fell, but the lowest point reached in 1891-95 was still above the average level of the previous quinquennium; and, as in that period, the importation of silver for coinage continued on a large scale until the closure of the mints in June, 1893.

1896-1900. This quinquennium witnessed two distinct famines. The first occurred in the latter part of 1896 and extended into 1897, and the second occurred in the latter half of 1899, and continued, like the previous one, through the ensuing year. These famines bore a close resemblance to each other in this, that they were more or less equally intense and equally widespread. The fall in price associated with the closing year of the preceding quinquennium was thus one of short duration.

1900-05. There was no very marked return to ordinary price levels in 1901 and 1902, as the weather conditions were generally not favourable, except perhaps for rice. But in the next two years, and particularly in 1904, agricultural conditions were distinctly good, especially in the case of the wheat crop. There was in these two years a corresponding improvement in prices of food-grains, especially of rice and wheat; but a set-back was experienced in 1905. The seasonal conditions of that year were marred by a partial failure of the monsoon in Northern and Western India and by heavy rain and floods in Bengal. A sharp rise in the prices of articles of Indian produce, especially food-grains, began in 1905.

1906-10. The rise was sustained in 1906, as the spring crops of that year, except wheat, were generally not good, and the autumn crops were damaged more or less by excessive rain and floods, particularly in Bengal. Agricultural prospects were to a certain extent improved by the good winter rains in Northern India; but as unfavourable conditions prevailed in other parts of the country, particularly in Bengal, prices remained unaffected; and when the failure of the south-west monsoon occurred, famine conditions declared themselves over a large area. The wheat and oil-seeds harvests of 1908 were very poor owing to deficient and badly distributed rainfall. Neither were the autumn crops good. The rise of prices

was accentuated in 1907 and 1908 by the widespread failure of the crops in Northern India. The wheat crop of 1909 showed an advance on the previous year, and there was a phenomenal rice crop in Burma and in Bengal. As a result there was a general decline of prices in 1909. The timely and well-distributed winter rains brought fine crops to harvest in the spring of 1910. The monsoon of that year was on the whole favourable and the crops good. Prices continued to fall; but in the case of rice a strong demand from China operated to keep the rates at the level of the previous year, particularly in Burma.

The spring crops of 1911 were on the whole good, 1911-12. though frost and rust affected them in parts of Northern and Western India, and prices continued to fall. The monsoon of that year, however, was not very favourable, particularly in Northern and Western India, where the autumn crops suffered more or less from drought, and prices of rice showed an upward tendency accentuated by strong export demand. The spring crops of 1912 suffered through drought in Western and in parts of Northern India, and prices rose; and although the monsoon of that year was not on the whole favourable, the strong export demand maintained the prices of rice at a high level.

APPENDIX F

A SUMMARY OF THE RESULTS OF THE PRICES ENQUIRY,¹ 1914

While it is impossible to lay down with dogmatic confidence the exact importance of each of the causes which have been at work in raising Indian prices in recent years, it is necessary to group them in order of importance, notwithstanding the difficulty of disentangling and measuring the effects of each of these causes in raising prices. Prices have risen in almost all the chief countries of the world as well as in India, but the rise in India, in recent years, has been greater than in any other country. The causes of the rise of prices may, therefore, be divided into two classes, namely, (1) causes peculiar to India, and (2) causes that have influenced the price level throughout the world. It should also be remembered that it is necessary to differentiate between the causes whose duration was more or less temporary and those whose influences extended over the greater part, if not the whole, of the period under investigation.

Of the causes peculiar to India, the comparative shortage in the production of food-stuffs in India proper, excluding Burma, the increased demand for India's food products and raw materials both in India itself and in world markets, the increase in communication within India itself and between India and foreign countries, and the decrease in the cost of transport, which have brought India closer to the world markets, and the increasing monetary and banking facilities, are perhaps the most important. Of the world factors, the most

¹ *Vide* vol. i. of the *Report*.

important are the increased supply of gold, the development of credit, the destructive wars which have taken place, in recent years, one after another in quick succession, and the amounts of labour and capital which are being devoted by the richest countries of the world to increasing their army and navy. There has been a large increase in the price of India's staple commodities owing to an increased demand in world markets, and this improved position of India in international trade has exercised not unnaturally a large influence on the price level. Sir David Barbour in his recent book, *The Standard of Value*, says: "During the last fifteen years the relative advantage of India in the International Trade of the world has greatly improved. This improvement has been one of the causes of the rise in the Indian Exchange, and has led to large imports of gold and to large additions to the rupee currency which the Government of India have had to make. Such an improvement is always attended with a general rise in prices and wages."

There has been a large increase in prices due to a shortage of food production in India proper. One must not, however, forget that the shortage of supply is often a shortage as compared with a very greatly increased demand. The growing demand for jute, cotton, and other commercial crops in the world markets has stimulated the production of these commodities, and has prejudicially affected the cultivation of food-grains. Unseasonable and deficient rainfall, during the period under enquiry, has also contributed, in no small measure, to a shortage of production. This was specially marked in 1891-92, 1896-97, 1899-1900 and 1907-08, and to a lesser extent over a series of years during the last decade, which were more or less unfavourable. The cumulative effect of such unfavourable years, coming one after another, has often been under-estimated. A detailed examination of the statistics of out-turn of food-grains for India, excluding Burma, shows that production has not kept pace with population in the way which one would have supposed. This shortage of supply has, however, to some extent, been made good from Burma,

where the area under rice cultivation has increased with great rapidity, and, with extensive tracts still available for rice cultivation, will in all probability go on increasing. In the famine of 1908, for example, a considerable portion of Burma's rice supplies was directed to Bengal and Madras, instead of being exported to the Far East or to Europe.

There has been an extraordinary growth of prosperity among large sections of the people, especially those who are engaged in the cultivation of jute, cotton, oil-seeds, and wheat. The purchasing power of these classes has greatly increased, and this has stimulated the consumption of all necessities. The population of cities and other industrial centres has grown very rapidly, with the development of trade and commerce and of industries on Western lines ; this growth has resulted in the transfer of a large part of the population from a lower to a far higher standard of food-consumption. There has been a remarkable change in the style of living of all classes of society throughout the country, and this has led to an increased demand, not only for luxuries, but also for the finer varieties of food-grains at the expense of the cheaper kinds ; the consumption of miscellaneous articles of food, *e.g.* meat, fish, vegetables, ghee, and milk, has also increased very largely ; in many tracts the ordinary cultivator has now become a fierce competitor with the middle classes for these commodities. There has thus been a large increase in the demand for commodities generally on the part of the consumers, resulting in a rise of prices.

The development of communications and the lowering of the direct and indirect costs of transport, in India itself and between Indian ports and foreign countries, have also contributed, to a large extent, to the advance of prices. The mileage of railways has nearly doubled in the last twenty-three years, and railway freight has fallen by about 30 per cent. The advent of railways in remote areas has removed the difficulty, and in many cases, the impossibility of transporting their produce profitably to central markets. The growth of the mercantile

marine and the extension of cables and telegraphs have, during the last ten or fifteen years, brought India closer into the world's commerce. Prices in Indian ports are now linked on to those of the world markets, and prices in upland districts have similarly been levelled up to those at the ports, in a greater degree than was previously the case. The fall in freights has had, between 1890 and 1910, a great influence in affecting relative prices not only in different parts of India but between the world markets and India itself. The fact that India and the world's markets are mutually sympathetic, to a greater degree than at the commencement of the period of this enquiry, has resulted in factors outside India affecting prices here with greater rapidity and to a greater extent than formerly. A shortage in wheat, rice, cotton, or oil-seeds in European or American markets makes itself felt at once in India, and the prices of the respective commodities not only at the ports but also in upland districts, tend to conform more closely to those of the world markets than is generally believed. The effect of this increasing sympathy between Indian and the world's markets, and between different parts of India, is that prices are prevented from falling as low or rising as high as they would otherwise have done.

The capital and reserves of the Joint-Stock Banks in India, including Presidency Banks, have increased in the decade ending 1911 by 56 per cent. Private deposits available for commercial enterprise have increased from an average of 22 crores in the five years 1890-94 to about 85 crores in 1911. The amount of cheques cleared in the three Presidency towns has increased from 138 crores in 1890 to 517 crores of rupees in 1912. This remarkable growth of monetary and banking facilities and development of credit have increased the resources of business men, and with it the demand for commodities generally, and prices have risen to an extent greater than what would have been possible had this improvement not been co-existent.

The development of credit has not been confined to India, but has been general throughout the world, and

this has been the prime factor which has raised the price level in all countries. The gold supply, as already explained, has increased to an extent unparalleled in the history of the yellow metal. It is this increase of gold and a simultaneous increase in credibility, i.e. in securities which bankers would accept in making advances, that has led to the remarkable development of credit.

Destructive wars which have taken place in quick succession since 1898, and the increase in armaments in all countries, have also affected the price level to a large extent. Capital and labour have been diverted to what may be termed 'unproductive' purposes, and there is an increased demand for many classes of commodities as a result of the activity on the part of the most prosperous nations of the world in increasing their army and navy.

These are believed to be the principal causes of the recent rise in Indian prices. It is clearly impossible to keep each of these apart by itself, for, as already pointed out, they are continually acting and reacting on one another. We may, however, emphasise the importance of the increase in communications and the fall in the direct and indirect costs of transport, the increased demand consequent on a general improvement in the standard of living, together with the great development of banking and credit resulting from an increase in credibility and in the supply of gold consequent on the discovery of the cyanide process and the extension of the Transvaal mining industry. There are other contributory causes not mentioned above, such as the sinking of large amounts of labour and capital on the development of railways and the opening out of new tracts in backward countries, the fruitfulness of which will take some time to mature, but which have stimulated consumption and prevented production from overtaking it.

APPENDIX G

WAGES¹

A scheme was recently introduced for quinquennial wage-census to be taken in the various provinces, and the results of such censuses taken in 1911 are now available; in some cases a preliminary census was taken at an earlier date, and the comparison is instructive. The results obtained are stated to be more reliable than the wage statistics hitherto available.

Bengal (as it stood in 1911).—A preliminary census was taken in 1908 and a regular census in 1911; but the exceptional conditions in the former year, which was a time of great scarcity, makes comparison difficult. The usual daily wage of an unskilled agricultural labourer in 1911 varied from 2d. in Chota Nagpur to 4d. in the Burdwan and Presidency divisions. Urban unskilled labour receives from 2½d. to 5d.; rates for skilled labour are so varied that no general statement is possible. Masons get from 6d. to 8d., and in Calcutta up to 11d. In Calcutta a blacksmith or carpenter can get as much as 1s. 4d. a day.

Eastern Bengal and Assam.—In Eastern Bengal the average daily wage of an agricultural labourer varies from 6d. in Dacca to 11d. in the Chittagong Hill tracts (the latter figure, however, is a temporary figure due to seasonal migrations). In Assam they run from 5d. to 8d.

United Provinces.—A census was taken in 1906 and again in 1911. Unskilled agricultural labour shows an all-round rise in the Western districts, while in the Eastern districts the rise is less apparent and in

¹ Taken from the *Moral and Material Condition of India*, 1914.

Bundelkhand there has been little change. The daily rates vary from about 1½d. in the East to about 4d. in the Hill tracts. These rates, however, are probably abnormally low, owing to a bad autumn harvest. Urban wages ranged from 3d. to 6d. for unskilled, and 6d. to 2s. for skilled labour. The rise of urban wages is almost universal.

Punjab.—A preliminary census was held in 1909 and a regular census in 1912. Rural wages rose in the interval in almost every district. The old customary rate of 2d. a day survives only in Gurgaon; elsewhere the most common rates range from 4d. to 8d., being lowest in the East.

North-West Frontier Province.—The rates are, on the whole, higher than for the nearest districts in the Punjab, probably owing to the demand for labour due to the extension and improvement of cultivation.

Central Provinces.—For the three agricultural years 1910-11 to 1912-13 fairly reliable figures have been returned. They show a slight but continuous rise both in urban and rural wages. The latter range from about 3d. a day in Chhattisgarh to 4d. a day in Berar and Nagpur. The considerable irrigation and railway programmes, and the gradual improvement of agriculture, account for these rises, which, however, are partly counteracted by the rise in prices since 1911.

Burma.—In the rapidly developing districts of Lower Burma (except the Arakan littoral), and in the north of Upper Burma, where conditions are backward and labour difficult to maintain, wages are high, rising to as much as 1s. 4d. a day for agricultural labour. On the Arakan littoral, and in the Upper Burma dry zone, the wages are lower, though considerably higher than in most parts of India proper, the minimum being 4d. a day. Daily wages are only paid for minor agricultural operations, the majority of agricultural labourers being paid by the season. An extraordinary amount of the field work is done by women.

Madras.—There was a general rise of wages between 1908 and 1911. The minimum daily rate for rural

unskilled labour ranges from 1½d. in the Deccan to 2 annas in all other wage-tracts; the maximum from 4d. in the Deccan to 8d. in the South. During 1912-13 the price of labour rose with the price of food grains.

Bombay.—Only one census has been taken—in 1911. Plague has decreased the available supply of labour, and the existence of a mill industry, together with the progress of large schemes of dock and railway extension, the Tata Hydro-Electric Works, etc., has a beneficial effect on agricultural wages, which in most districts average about 4d. a day, except where the presence of primitive tribes results in lower rates. In Sind wages are higher.

AVERAGE RATES OF WAGES PAID IN SELECTED
INDUSTRIES IN 1913.¹

		£	s.	d.
Cotton - - - - -	Month	1	0	8½
Wool - - - - -	"	1	2	1½
Paper - - - - -	"	1	6	4
Rice - - - - -	"	3	10	10
Brewing - - - - -	"	1	0	1½
Jute - - - - -	Week	0	5	0½
Mining (coal) - - - - -	Day	0	0	6½
Tea { Act coolies - - - - -	Month	0	6	4½
Non-act coolies - - - - -	"	0	5	5½
General average - - - - -	"	0	5	9½

¹ *Review of the Trade of India, 1913-14, p. 84.*

APPENDIX H

AVERAGE MONTHLY WAGES (IN RUPEES) IN THE DIFFERENT PROVINCES IN 1873 AND 1909¹

	1873			1909		
	Able-bodied agricultural labourer.	Menial (syce).	Common Mason, Carpenter, or Blacksmith.	Able-bodied agricultural labourer.	Menial (syce).	Common Mason, Carpenter, or Blacksmith.
Burma,	13.5 to 14.3	13 to 14.1	26.5 to 30.7	13.9 to 15.6	12.36 to 14.2	26.6 to 33.5
Ebassam,	6.5 to 6.6	5.8 to 6.3	9.6 to 14.6	9.61 to 10.9	8.3 to 9.3	15.6 to 24.3
Bengal,	4.2 to 4.33	4.72 to 4.83	7.53 to 9.83	6.8 to 7.3	6.2 to 6.8	11.9 to 15.2
United Provinces,	3.8	4.4	9.5	Not given	Not given	Not given
Oudh,	3.5	4.5	7.4	"	"	"
Rajputana,	5	5.5 to 5.8	10.2 to 12.8	3.52 to 4.5	4.7 to 7	11.7 to 21
Central India,	4.5 to 5	5.5 to 6	12 to 12.5	7.5	5.5 to 6.5	18.8 to 19.7
Punjab and N.-W. F. Province,	5.2	5.6	12.8	10.8	7.8	25
Sind,	10 to 12.5	8 to 10	22.5 to 25	12.5	12.5	23.5 to 30
Bombay,	7.3	8.5	18.3 to 24.2	9	9	19.5 to 24.1
Central Provinces,	4	5.3	12.6	5.7	7 to 7.7	22.5 to 26.7
Berar,	5	7	19.5	10	10	22.5 to 30
Hyderabad,	5.1 to 8	6 to 7	12.8 to 15	8 to 11	8 to 12	20 to 25
Madras,	3.9	5.7	12.7	4.5	6.3	13.8 to 15.5
Mysore,	5.8 to 7.8	5.1 to 6.1	14 to 18.8	9.5	9	17.5 to 22.5
Coorg,	7.5	8	22.5	7 to 9	8 to 10	19 to 30

¹ Vide *Prices and Wages in India*, 1910. The wage statistics are unsatisfactory and not wholly reliable.

APPENDIX I

JOINT-STOCK COMPANIES IN 1900 AND 1912-13¹

	1900.	1912-13.
Banking and loan, - - - -	407	477
Insurance, - - - -	43	186
Navigation, - - - -	9	20
Railways and tramways, - - -	18	36
Other trading companies, - - -	252	769
Tea, - - - -	129	177
Other planting companies, - - -	19	31
Coal mining, - - - -	34	134
Gold mining, - - - -	7	8
Other mining and quarrying companies, -	13	65
Cotton mills, - - - -	152	205
Jute mills, - - - -	21	35
Mills for wool, silk, hemp, etc., - -	25	16
Cotton and jute screws and presses, -	113	140
Flour mills, - - - -	18	29
Land and building, - - - -	4	29
Sugar, - - - -	11	22
Other companies, - - - -	65	120
 Total, - - - -	 1340	 2409

¹ *Statistical Abstract for British India, 1915.*

APPENDIX J

PROGRESS OF BANKING CAPITAL IN INDIA.

	Capital and Reserve (Lakhs of Rupees).			Deposits (Lakhs of Rupees).			Cash Balances (Lakhs of Rupees).		
	1904.	1913.	In- crease p.c.	1904.	1913.	In- crease p.c.	1904.	1913.	In- crease p.c.
Presidency Banks -	6,10	7,48	23	25,15	42,37	68	10,22	15,38	50
Exchange Banks -	32,04	56,74	77	16,32	31,03	90	4,94	5,88	19
Indian Joint- Stock-Banks (above Rs. 5 lakhs) -	1,45	3,64	151	11,51	22,59	96	1,44	4,00	178
Total -	39,59	67,86	71	52,98	95,99	81	16,60	25,26	52

The proportions per cent. of the Cash to the liabilities on Deposits in 1904 and 1913 were respectively: Presidency Banks,—40, 36; Exchange Banks,—29, 19; Indian Joint-Stock Banks (above 5 lakhs),—12, 18.

Vide Statistical Tables relating to Banks in India, 1915.

APPENDIX K

SUMMARY OF CONCLUSIONS OF THE REPORT OF THE ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

“For convenience of reference we summarise our conclusions as follows :—

(i) The establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India. (Para. 8.)

(ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to, than in all respects directly in pursuance of, the recommendations of the Committee of 1898. (Paras. 7 and 44 to 46.)

(iii) These measures worked well in the crisis of 1907-8, the only occasion upon which they have been severely tested hitherto. (Paras. 48, 49.)

(iv) The time has now arrived for a reconsideration of the ultimate goal of the Indian Currency system. The belief of the Committee of 1898 was that a Gold Currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last 15 years shows that the Gold Standard has been firmly secured without this condition. (Paras. 47, 50.)

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation. (Para. 64.)

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal

needs of India consists of rupees and notes. (Paras. 55, 76.)

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint: provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. (Paras. 69-73.)

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay Mint in exchange for currency. (Para. 73.)

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged. (Para. 76.)

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling. (Para. 76.)

(xi) No limit can at present be fixed to the amount up to which the Gold Standard Reserve should be accumulated. (Para. 86.)

(xii) The profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve. (Para. 89.)

(xiii) A much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about £10,000,000 in gold can be at once secured. This total should be raised as opportunity offers to £15,000,000, and thereafter the authorities should aim at keeping one-half of the total Reserve in actual gold. (Paras. 93 to 100.)

(xiv) The Indian branch of the Gold Standard Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold. (Para. 98.)

(xv) The proper place for the location of the whole of the Gold Standard Reserve is London. (Paras. 90 and 100.)

(xvi) The Government should definitely undertake to sell bills in India on London at the rate of 1s. $3\frac{2}{3}\frac{9}{16}$ d. per rupee whenever called upon to do so. (Para. 101.)

(xvii) The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries *plus* one-third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. (Paras. 112 and 113.)

(xviii) We recommend the immediate universalisation of the 500-rupee note and the increase of the facilities for the encashment of notes. (Para. 115.)

(xix) The aggregate balances in India and London in recent years have been unusually large. This has been due mainly, though not entirely, to accidental causes and to the exceptional prosperity of India. (Paras. 125, 126.)

(xx) Caution is justifiable in framing Budgets in India, but has been carried rather further than was necessary in recent years. (Paras. 126 and 128.)

(xxi) A change in the date of the commencement of the financial year from the 1st April to the 1st November or the 1st January would probably enable the Government of India to frame more accurate Budgets. Such a change would also enable the India Office to fix the amount of their borrowings in London with closer regard to immediate needs. We commend this proposal for favourable consideration. (Paras. 128 and 190.)

(xxii) The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use, for this purpose or for actual

reduction of debt, of the balances from time to time accumulated in his hands. (Paras. 130 to 133 and 179.)

(xxiii) But the recommendations which we make as regards loans by Government in India may lead to a revision of the occasions, though not of the extent, of transfers of money to London. (Para. 133.)

(xxiv) The independent Treasury system of the Indian Government is not an ideal one. It is partly responsible for the stringency which recurs annually in the Indian money markets. (Paras. 137 to 143.)

(xxv) We recommend that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks. (Paras. 150, 163, 164.)

(xxvi) In deciding upon the location of surplus balances, the Government of India and the Secretary of State should act in consultation, and, while the transmission of the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors including the possibility of utilising surplus balances for loans in India. (Paras. 159 to 161.)

(xxvii) In carrying out these recommendations, the authorities should proceed tentatively and with caution. (Para. 165.)

(xxviii) We recommend that the amount of the annual rupee loans in India should be increased as much as possible. The figures of recent loans appear to have been somewhat over cautious. We call attention to the questions of relaxing present regulations in regard to endorsements on rupee paper and of creating new forms of securities. (Paras. 167 to 169.)

(xxix) The Secretary of State sells Council Drafts, not for the convenience of trade, but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf. (Para. 186.)

(xxx) The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the

London balance was in no need of replenishment, but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of drafts sold or the rate at which they are sold, provided that it is within the gold points. The amount and occasion of sales should be fixed with reference to the urgency of the Government's requirements and the rate of exchange obtainable, whether the drafts are against Treasury balances or against the Reserves. (Paras. 181 to 185.)

(xxxi) There has been some excess of caution in the renewal of debt by the India Office during recent years. (Para. 192.)

(xxxii) The system of placing portions of the India Office balance out on short loan with approved borrowers in the City of London is on the whole well managed, but we draw attention to—

- (a) The term for which loans are made.
- (b) The desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers.
- (c) Some defects in the list of approved securities and especially its narrow range. (Paras. 196 to 200.)

(xxxiii) There is no ground for the suggestion that the City members of the Secretary of State's Council showed any kind of favouritism in placing on deposit with certain banks, with the directorates of which they were connected, a part of the India Office balance at a time when it was too large to be placed entirely with the approved borrowers. But we call the attention of the Secretary of State to the desirability of avoiding as far as possible all occasion for such criticism, though it may be founded on prejudice and ignorance of the facts. (Para. 202.)

(xxxiv) We observe that in our opinion the time has come for a general review of the relations of the India Office to the Bank of England. (Para. 203.)

(xxxv) The working of the present arrangements for the remuneration of the Secretary of State's broker

should be watched, and if necessary they should be revised. (Para. 204.)

(xxxvi) We record our high opinion of the way in which the permanent staff, both in India and in London, have performed the complicated and difficult financial duties placed upon them. (Para. 7.)

(xxxvii) We recommend a continuance of a Finance Committee of Council as providing the machinery most suitable for the work required. (Para. 208.)

(xxxviii) The Finance Committee should, if possible, contain three members with financial experience, representing—

(a) Indian Official Finance.

(b) Indian Banking and Commerce.

(c) The London Money Market.

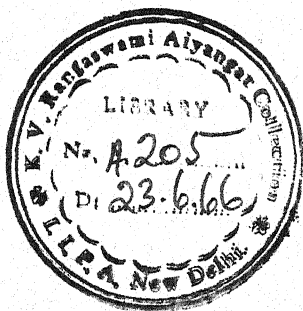
In any case there should be at least one member with Indian financial experience. The absence of any representative of Indian finance on the Committee since 1911 has resulted in giving undue prominence to the representation of London City experience. (Para. 210.)

(xxxix) While we suggest that the changes recently proposed and now under discussion in the constitution of the India Council may require some modification in order to provide for the continuance of a Finance Committee of Council, we are in sympathy with the desire for expediting financial business, which is one of the objects in view. (Para. 214.)

(xl) The present arrangement under which the Assistant Under Secretary of State, having financial experience, is able to share with the Financial Secretary the responsibility for financial business in the India Office has many advantages. For the future we recommend that either (1) the Under Secretary or Assistant Under Secretary of State should have financial experience as at present, or (2) there should be two Assistant Under Secretaries, of whom one should have financial experience. (Para. 216.)

(xli) We are not in a position to report either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early

and careful consideration, and suggest the appointment of a small expert committee to examine the whole question in India, and either to pronounce against the proposal or to work out in full detail a concrete scheme capable of immediate adoption. (Paras. 221, 222.)”



A STUDY OF INDIAN ECONOMICS

BY

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